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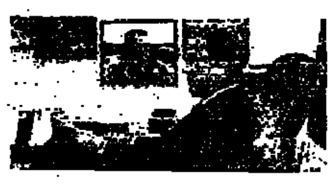
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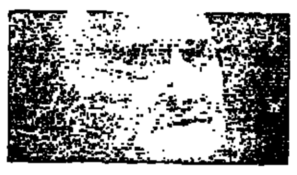
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NEWSPAPER of THE YEAR

FINANCIAL TIMES

Monday June 1 1992 — EUROPE'S BUSINESS NEWSPAPER — D8523A

East Jerusalem anniversary leads to party discord

Israel's celebrations of the 25th anniversary of its capture of Arab east Jerusalem turned into a discordant chorus of competing political claims.

Leaders of the ruling Likud party and the opposition Labour party sought to turn the occasion to advantage in the campaign for the general election on June 23. Both parties reiterated the popular pledge that Jerusalem would never be the capital of a Palestinian state. Page 5; Hardening eyes in Gaza, Page 5

Hope for fighter contract: Supporters of the $38bn European Fighter Aircraft project within the German government have won a one-month delay in the final decision on whether to pull out of the deal. Page 14

Canary Wharf: The UK government held talks with three developers, including Olympia and York, on terms for a shift of government officials to the Docklands area of east London even before O&Y's Canary Wharf office development went into administration last week. Page 14; Bank could lose C$300m on O&Y, Page 15

Austerity plea: Carlo Azeglio Ciampi, governor of the Bank of Italy, called for the urgent introduction of an austerity package to tackle the country's fast deteriorating public finances. Page 2

Ferruzzi Finanziaria, holding company for Italy's second biggest private-sector industrial group, suffered a sharp drop in net attributable profits, to L115bn ($93.8m) for 1991, against L248bn the previous year. Page 17

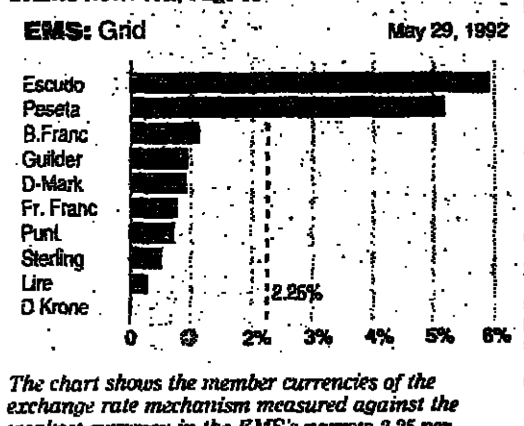
War protest: Police arrested nine protesters at the dedication ceremony in London of a statue of Sir Arthur Harris, the RAF chief responsible for the blanket bombing campaign over German cities in the second world war. Page 14

ANC threat: The African National Congress made a commitment at its policy conference to mass action on an unprecedented scale in South Africa. Page 4

Profits fall: Japan's five largest steelmakers reported lower pre-tax profits for fiscal 1991 because of weak demand and higher productions costs. They expect a further decline in earnings this year. Page 17

European Monetary System: The escudo remained entrenched at the top of the EMS grid at 5.90 per cent above the Danish krone, still the weakest currency. Last week the D-Mark weakened against the escudo despite repeated sales of escudos by the Bank of Portugal in an attempt to brake the Portuguese currency's recent strength. Currencies, Page 25; Lex, Page 14; Economics Notebook, Page 15

EMS: Grid — May 29, 1992



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. Currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling, the Spanish peseta and the Portuguese escudo operate with 6 per cent fluctuation bands.

'Yes' vote likely: Denmark looks set to back the Maastricht treaty on European union by a comfortable majority when it votes tomorrow in a referendum on the subject. Page 2

Smith Corona, US manufacturer of typewriters and word processors, is pulling out of the personal computer market little more than a year after it entered the sector through a venture with Acer, the large Taiwanese company. Page 15

D-Mark move: Estonia plans to phase out the rouble and join the D-Mark zone when the Baltic state later this month becomes the first part of the former Soviet empire to introduce its own currency. Page 2

Rumour squashed: President George Bush denied rumours that he is considering turning to James Baker, secretary of state, to bring direction to his re-election campaign. Page 4

Nissan UK: A former executive the private motor distributor is claiming damages of £1.3m ($2.3m) for alleged breach of contract and wrongful dismissal three years ago.

Policy switch: Japan's ruling Liberal Democratic party is this week planning to force through the Diet controversial legislation which would allow Japanese troops to serve on United Nations peace-keeping missions abroad. Page 4

Poll deaths: Two people were killed in electoral violence as Nepal completed two-stage local polls which saw significant gains for the ruling Nepali Congress party.

Dowty Group, UK aerospace and information technology group, could this week bolster its defence against the hostile £494m ($899m) bid from TI, the specialist engineering company, with the help of payments on a cancelled UK Ministry of Defence contract. Page 15

Sixth time lucky: World motor racing champion Ayrton Senna of Brazil won the Monaco Grand Prix, ending the five-race winning run of Britain's Nigel Mansell, who finished second.

Sarajevo ceasefire agreed as tough sanctions start

By Judy Dempsey and Laura Silber in Belgrade

WARRING factions in the besieged Bosnian capital of Sarajevo agreed to a ceasefire yesterday in response to the sweeping sanctions imposed on Serbia and Montenegro by the United Nations on Saturday.

The ceasefire news came after 50,000 demonstrators marched through Belgrade to protest against the war in Bosnia and to show support for those trapped in the besieged Bosnian capital, Sarajevo.

Yugoslav federal troops and Serb irregulars had earlier continued to bombard Sarajevo and the Croatian Adriatic resort of Dubrovnik in spite of the sanctions.

The UN Security Council voted on Saturday to isolate Serbia and Montenegro, which comprise Yugoslavia's rump federation, with a trade ban including an oil embargo.

The sanctions resolution also cuts all air links, freezes Serbia's financial assets overseas, calls for a reduction in the size of its diplomatic missions abroad and bars Yugoslav representatives from sports events and cultural exchanges.

The UK's Department of Trade and Industry said some export licences granted to between 50 and 60 UK companies to supply goods to Serbia and Montenegro were revoked. British trading links with the Serbian-led remnant of Yugoslavia were severed at 11.30 am yesterday.

The International Football Federation (FIFA) said it was disqualifying Yugoslavia from international competition, including the forthcoming European soccer championship finals in Sweden.

Serb leaders from the ruling Socialist party condemned the sanctions as "an aggression against the legal, economic and political order". Mr Vladislav Jovanovic, the foreign minister told Belgrade Radio: "We will make efforts to make the whole world, especially the Security Council, get the full picture about our attempts to stop the fighting in Bosnia-Hercegovina.

"The cloud which will come over us will disappear. Serbia will do everything to solve the existing problems in a satisfactory way and an quickly as possible," he added.

UN and Bosnian officials said Serb and Moslem-Croat forces in Sarajevo accepted a ceasefire to take effect at 6 pm (1600 GMT) today.

Mr Mile Akmadzic, secretary-general in Bosnia's collective Moslem-Croat presidency, told a televised news conference the pact had been brokered by Col John Wilson, a UN peace-keeping officer in Sarajevo.

"We will also start urgent negotiations with the federal army and [UN peace-keepers] to reopen Sarajevo airport and an air corridor over Bosnia," Mr Akmadzic added, without elaboration.

The ceasefire could represent the start of a long and difficult process aimed at sending food, medical and humanitarian supplies into the city. Humanitarian agencies have been unable to penetrate a Serb blockade of Sarajevo for weeks.

Mass hunger and sickness are now reported in the city of 500,000 people.

In Dubrovnik, Croatian officials reported a tentative truce agreed during a third successive day of army bombardment. Guns fell silent around Dubrovnik at 5 pm (1500 GMT), a Reuters correspondent in the city reported.

Renewed barrages against Sarajevo and Dubrovnik, despite the UN vote, suggested some Serb militia and Yugoslav army troops were acting beyond political control.

Ms Zana Misovic, a journalist for Radio Sarajevo, contacted by telephone, said the local militia forces were out of control, and that fighting continued in Dobrinja, a suburb of Sarajevo, which has been blocked from all food and water supplies for four weeks. "We welcome the sanctions against Serbia, but they are too late. We are afraid that the ceasefire will allow the Serb militia to regroup," she said.

UN SANCTIONS

Page 3

- **Britain severs trading links**
- **Milosevic fights to save his political life**
- **Belgrade anti-war protest**
- ***Serious blow to economy***

No sanctuary: A nun picks through the debris in the Sigurata church in Dubrovnik. The 13th century roof was destroyed during heavy attacks by the Serb-dominated Yugoslav Army

Yeltsin signals turnaround in economic policy

By John Lloyd in Moscow

MR Boris Yeltsin, the Russian president, has signalled a sharp change of course in Russian economic policy in the face of rising public discontent.

The turnaround was highlighted this weekend when Mr Yeltsin said he would resist pressure from the International Monetary Fund to raise energy prices to world levels and also fired his energy minister, who supported price liberalisation.

He confessed his unease over the effects of radical economic reforms in talks with Mr Jacques Delors, president of the European Commission on Saturday. According to Mr Delors, Mr Yeltsin told him that "the Russian people still support me – but their patience has its limit."

Mr Yeltsin met Mr Delors on his return to Moscow after a tour of Russian provincial centres where he met fierce criticism about the effects of economic reform. His remarks to Mr Delors follow serious difficulties in the Russian cabinet with its reform programme. Last Thursday and Friday, the Russian parliament refused to pass laws on privatisation and bankruptcy. This threatened the planned transfer of state property into private hands – the core of the government's economic strategy.

The Russian president told a weekend conference of managers of the country's oil and gas enterprises that he would resist pressure from the IMF to raise energy prices. Instead, an "expert group" has been established to analyse the effects of energy price rises.

He said that "although the IMF demands immediate introduction of free prices for fuel, we cannot do this at the moment, for we may lose control of the political situation if we do ... if we get beyond the critical point, we'll set off a general disaster. This would be a fatal step to take."

At the same time, Mr Yeltsin dismissed from office Mr Vladimir Lopukhin, the energy minister and replaced him with Mr Viktor Chernomyrdin, a former Soviet minister of the gas industry. Mr Lopukhin had been a supporter of free energy prices. He failed to stop the fall in oil production and in recent weeks has faced a rising threat of strikes in the oil producing regions.

Mr Chernomyrdin's appointment is a further example of a recent appointments to the cabinet of figures from the industry, and appears to show a desire by Mr Yeltsin to water down the force of the economic reforms.

Mr Delors said at the weekend that Mr Yeltsin had complained to him that none of the $24bn of foreign assistance put up by the major foreign industrial countries and the IMF had yet been paid. The Russian president told Mr Delors that he would press for a more efficient mechanism of payment at his meeting with G7 leaders in Munich on July 8.

Mr Delors said he cautioned the Russian leaders from "expecting too much from Munich," and said the conference would set stiff conditions for Russia and the other former Soviet states.

Estonia to bring in own currency, Page 2

Wealthy nations balk at cost of bio-diversity treaty

By David Lascelles in Rio and Jurek Martin in Washington

MANY of the world's wealthier nations have expressed doubts about one of the two main documents to be signed at the Earth Summit, just two days before the gathering is due to begin.

President George Bush's announcement on Friday night that the US would not sign the biological diversity treaty – an international treaty to preserve species – has been followed by objections from other states.

The outburst of disagreement has cast a shadow over the final preparations for an event whose aims have already been cut back by compromise.

Although the US does not think it can stop the signing of the biological diversity treaty in Rio de Janeiro, it apparently hopes that a number of other nations, including Japan and some members of the European Community, will now be persuaded to take a second look at it.

Mr David Maclean, the UK environment minister said yesterday the UK was worried about the financial aspects of the treaty and had asked its lawyers to study the text.

The strength of concern has prompted 19 industrialised countries to sign a declaration which lays out their reading of a potentially ambiguous clause in the treaty, which they fear could amount to their signing a blank cheque.

The draft of the treaty painfully negotiated last month says the amount of money rich nations will give to poorer ones to help them preserve their species would be determined by all participating countries.

This means that the donor nations could be out-voted by the recipients, and forced to hand over large sums of money.

This is particularly sensitive given that the richer countries are resisting the notion that the Earth Summit is mainly about environmental aid for the Third World.

But there are wider worries. The treaty defines the right of countries to exploit their species for commercial purposes, for example by making medicines out of tropical plants. Industrial countries are concerned that this would undermine pharmaceutical patent rights.

The treaty on bio-diversity is aimed at preserving the planet's range of plant and animal life. It lays out the rights, as well as the duties, of countries to protect biological resources.

It has proved especially difficult to negotiate because it has pitted rich countries against the poor where most bio-diversity is located.

The Earth Summit will give negotiators 12 days to sort out their differences before heads of state arrive for the formal signing on June 14.

The bio-diversity treaty is one of only two now left for the Summit to approve. The other is on climate.

● President Bush, under pressure to do more to protect to the environment, will today announce a US contribution of more than $100m a year for a new plan to preserve the world's forests, a senior White House aide said yesterday.

Mr William Reilly, administrator of the Environmental Protection Agency, said Mr Bush would announce "a major new thrust" to develop sound forest-management practices involving "in excess of $100m" in annual contributions.

Anxious to deflect criticism of Mr Bush's refusal to sign the bio-diversity treaty in Rio, Mr Reilly noted that forests were "the main repositories of plants, animals and species".

However, the cause of protecting forests is expected to be a major point of contention at the Earth Summit, with Malaysia and other developing countries opposed to curbs on their use of forest land for economic development.

Green shoots of good intention..........Page 4

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Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50		
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000		
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000		
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 18,000	UAE	Dh9.00		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190				
Greece	Dr250	Lux	LFr60	Qatar	QR10.00				

Denmark sees surge in Maastricht support

By Robert Taylor in Copenhagen

DENMARK looks set to back the Maastricht treaty on European union by a comfortable majority when it votes tomorrow in the country's binding referendum on the subject.

All the opinion polls published at the weekend suggest there has been a dramatic surge in support of voting Yes to Maastricht. What had looked in the middle of last week to be a tight result appears to be turning into an easy victory for the pro-union forces.

A Gallup poll yesterday showed 44 per cent in favour, 35 against and 13 per cent not knowing. However, among those who had decided to vote, 56 per cent said they were in favour of the Maastricht treaty and 44 per cent against. A survey by the Sonar organisation showed 49 per cent for and 40 per cent against.

Mr Poul Schlüter, Denmark's prime minister, said he was confident that up to 60 per cent would back the treaty after a very large voter turn-out. If the opinion polls prove accurate, the rest of the European Community will be relieved that the Danish referendum did not lead to a constitutional crisis for the EC.

Observers believe the main cause of the rapid rise in the Yes vote stems from the sustained effort (after a late start) by the Danish labour movement in campaigning for the Maastricht treaty.

Both the opposition Social Democrats and the trade unions have warned their supporters not to vote No because that would threaten up to 150,000 jobs, jeopardise Denmark's Dkr40bn (£3.5bn) exports to the EC and undermine one of the EC's strongest economies.

Against this bombardment, the anti-Maastricht coalition – made up of environmentalists, women's groups, far-left parties and ultra-nationalists – has found it difficult to respond effectively. Many Danish women remain fearful, however, that a more integrated Europe will become less socially responsive.

For all the doubts and worries, though, most Danes seem to recognise that their prosperity is closely dependent on their country's integration to the EC's single market. With large balance of payments and trade surpluses, low inflation and the highest per capita industrial production in the EC, Denmark already fulfils all the stringent conditions laid down for the transition to the final stage of European monetary union.

However, the Danes remain awkward Europeans and Mr Schlüter was keen to play down yesterday any suggestion that a Yes vote tomorrow would mean a Danish endorsement for a federal EC.

"There will never be a united states of Europe," he asserted. "The federalists have lost the battle." The prime minister added that, while Denmark would certainly give u[illegible] of its "formal" sovereig[illegible] [illegible]ain "real" sove[illegible] [illegible]one of the E[illegible] [illegible]s, with the [illegible] E[illegible]tes.

Poul Schlüter: "The federalists have lost the battle"

Estonia to bring in o[illegible]rency this month

By David Marsh in Tallinn

ESTONIA plans to phase out the rouble and join the D-Mark zone when the Baltic state later this month becomes the first part of the former Soviet empire to introduce its own currency.

Detailing a move which brings full circle 52 years of tortuous history, Mr Siim Kallas, president of the Bank of Estonia, said he intends to carry out the long-awaited currency reform before the end of June.

"The desire to have our own currency is so big that the advantages outweigh the possible disadvantages," he told the Financial Times. The Estonian currency, the kroon, suppressed in August 1940 in the Soviet takeover, will be allowed to fluctuate 3 per cent either side of a central D-Mark rate.

The link has been closely discussed with the German Bundesbank. Although the Bundesbank will be under no obligation to support the kroon, "the Germans have nothing against the link," Mr Kallas said. The Bank of Estonia has been given an independent statute closely modelled on the Bundesbank Law.

Estonian leaders stressed at the weekend that the kroon's reintroduction marks an important step towards recovering the country's still-restricted sovereignty.

The kroon will be backed primarily by 11.3 tonnes of gold in Estonia's newly reconstituted monetary reserves. New kroon banknotes, to replace the estimated 3bn roubles in circulation, are stored in strategic spots around the country. They have been printed by the British banknote company, De La Rue.

Total roubles, including deposits, to be replaced amount to R[illegible]s13bn – Rbs14bn.

Speaking of the coming currency switch, Mr Arnold Rüütel, the Estonian president, said: "We can no longer remain in the rouble zone. It has no value. People have no incentive to work."

He warned, however, that Estonia was "aware of the problems" of suddenly introducing a convertible currency. Unemployment in the 1.5m population state was likely to rise to 100,000 by the end of the year.

The currency reform is being worked out in close collaboration with the International Monetary Fund, which Estonia has just joined. An IMF team is due in Tallinn at the end of this week. A delegation of trade ministers and state bank chiefs from the Commonwealth of Independent States is also coming on Friday to discuss the new arrangements.

Mr Kallas, just back from a trip to the IMF, said he hoped the reform would psychologically boost Estonia's depressed economy. "The whole economy is waiting for the kroon."

The IMF is predicting a 20 per cent fall in real gross domestic product this year, but Mr Kallas said there were signs the worst of the collapse was over.

Estonia would negotiate a standby credit from the IMF, and was discussing mobilising its gold through "swap" credits through the Bank for International Settlements.

Total monetary reserves are about $120m, of which all but about $10m represents gold. Mr Kallas hoped part of the $250m in foreign currency deposits held abroad by Estonian individuals and enterprises would return to the central bank after the reform.

The freshly printed kroons are ready to be handed out by 22,000 helpers in 700 exchange points around the country.

The exact date and conversion details had not been decided, but Mr Kallas said the exchange rate to the D-Mark could be similar to that of the Austrian schilling. The operation might take place on the weekend of June 20-21, the 44th anniversary of the introduction of the D-Mark in western Germany on June 20, 1948.

Mr Kallas visited Mr Hans Tietmeyer, the Bundesbank vice-president, in Frankfurt a month ago to discuss the conversion. Mr Tietmeyer warned him that the operation was not comparable to the dramatic entry of the D-Mark into eastern Germany on July 1, 1990, which paved the way for reunification.

"Then we just took over," Mr Kallas quoted Mr Tietmeyer as saying. On this occasion – for the first time for half a century – the Estonians will be in charge.

France's smoking habit given a kick

By Alice Rawsthorn in Paris

FRANCE, one of the last bastions of heavy smoking in Europe, is introducing tough restrictions on smoking in public places including trains, aircraft and restaurants.

Under the restrictions published this weekend, which come into force on November 1, people will be allowed to smoke only in specially designated areas in public places such as restaurants, businesses, educational institutions, leisure centres and transport vehicles.

If restaurants and leisure centres wish to allow customers to smoke they must provide special areas. Employers will also have to provide special zones. They will be given six months to consult with their companies' medical advisers and hygiene committees to decide how to reorganise offices, production floors and communal areas to accommodate smokers.

Stiffer restrictions will be applied to public transport. The proportion of smoking seats on French trains will be reduced to 30 per cent.

Smoking will be banned completely from buffet cars on trains, in metro stations and on all internal flights of less than two hours.

Children under 16 will no longer be allowed to smoke in French schools and colleges.

These restrictions reflect the general trend towards anti-smoking regulations across the European Community. However the French rules will be among the toughest in the EC.

They reflect the French government's concern about the health hazards of smoking, said to be the direct cause of 54,000 deaths a year in France. Roughly 40 per cent of the French population now smoke, a far higher proportion than in most other EC countries.

From November 1, anyone flouting the new laws will be punishable by fines of FFr300 to FFr600 (£30.36 to £60.72). Fines of FFr1,200 to FFr3,000 will be payable by restaurants and leisure centres.

Italy's bank chief calls for urgent action on economy

By Robert Graham in Rome

MR Carlo Azeglio Ciampi, the governor of the Bank of Italy, called over the weekend for the urgent introduction of an austerity package to tackle the country's fast deteriorating public finances.

Ineffective economic policy in 1991 and in the current year had left Italy little time to put in place the necessary measures to permit the economy to reach the targets for convergence with the EC laid down by the Maastricht summit, he said.

"The imbalances risk getting worse; they could preclude us from the path of Maastricht and could well undermine the [country's] long-term productive potential," he said in his statement accompanying the presentation of the bank's annual report.

He also warned: "It could fall to us the grave responsibility of being the ones who become an obstacle to the construction of Europe." This was Mr Ciampi's gloomiest annual statement since he took office more than a decade ago.

Coming as politicians begin consultations on the formation of a new government this week, his comments were seen as offering a technician's economic agenda. Mr Ciampi himself is being canvassed by some in parliament as the possible head of a new "super ministry" of the economy, combining the current three portfolios.

The next government, he said, had to act on four fronts – foreign exchange and monetary policy; competition; incomes and prices; and public finances. He was adamant on the need to maintain a strong lira within the narrow band of the European exchange rate mechanism. Money supply had to be tightly controlled, limiting the expansion of M2 to a band between 5 and 7 per cent. Already money supply has edged above this upper limit.

On competition, he urged greater liberalisation of the services sector where cartels and restrictive practices were a major contributor to inflation.

The third component of the measures, he said, should be a fairly agreed incomes policy. However he warned that incomes could not rise above inflation levels and, if anything, risked declining in real terms.

The main sacrifices and attention, however, had to be directed towards Italy's public finances.

Already this year the budget is projected to have a deficit of L165,000bn (£74.8bn) instead of L128,000bn. Measures had to be adopted to reduce by the second half of this year the percentage of the public sector's deficit weight on the GDP by two percentage points. A further reduction of two percentage points was essential in 1993. Only in this way could the present deficit, equivalent to 10.5 per cent of GDP, move towards the EC target.

He concluded by saying: "It is unacceptable when a society knows full well the nature of its problems, which knows how they should be resolved… is incapable of translating this into action."

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Serbian president's appeal to the international community has come too late

Milosevic in fight to save his political life

SERBIAN president Slobodan Milosevic has been cornered by the international community, led by the US.

The United Nations sanctions imposed on Saturday night against Serbia and its ally Montenegro mean that Serbia is now being held responsible for the fighting, destruction, mutilation and killings which have swept Bosnia-Hercegovina and Croatia over the past year.

In the first real sign of desperation, Mr Milosevic appealed at the weekend to US President George Bush and Russian President Boris Yeltsin to stop the fighting in Bosnia-Hercegovina. Although he said he would co-operate in their efforts, he attacked sanctions, which unfairly singled out Serbia, he said.

For the first time since he came to power in 1987, Mr Milosevic is battling for his political life. The question now is whether he can survive. Not only does he face, for the first time, the ire of the international community, but Serbs, who for five years have staunchly defended his expansionist policies, are not expected to come to his defence.

Serbia's many warlords – including Mr Vojislav Seselj, head of the ultra-nationalist Serbian Radical Party, Mr Zeljko Raznatovic, known as Arkan and head of a ruthless Serb paramilitary unit, and Mr Radovan Karadzic, nationalist head of Bosnia's Serbs – are accusing Mr Milosevic of being "too soft" and "too moderate".

Serb militia forces, who already control large swathes of Bosnian territory, would regard any appeal by Mr Milosevic to end the fighting as treasonable, a betrayal of the Serbian cause. "We will fight for Serbia. We will not give up the struggle," a defiant Arkan said in Belgrade.

On the other side, the anti-war demonstration in Belgrade yesterday may have come too late to atone for the deaths of at least 10,000 people, and the displacement of more than 1.5m.

Those who marched represented thousands of the liberal, powerless middle-class which has been jolted at last out of its passive attitude to Mr Milosevic by the horror of the war in Sarajevo.

The demonstration was confined to the Serbian capital.

By contrast, in parts of the Serbian and Montenegran countryside, millions of people – but not the opposition parties or the ethnic Albanians of Serbian-controlled Kosovo – turned out to vote in parliamentary elections aimed at legitimising the new, rump Yugoslavia.

Serbian militia forces would see any appeal by Mr Milosevic to end the fighting as a betrayal of the Serbian cause, Judy Dempsey writes

The capital and other large cities do not represent a nation-wide consensus. The gap between the cities and the conservative countryside is wide. Mr Milosevic, and particularly the nationalists, are likely to exploit it in their quest for a greater Serbia.

This sharp polarisation within Serbia means that sanctions are unlikely to stop the war in neighbouring Bosnia – nor will sanctions necessarily prevent Serbia being engulfed in a civil war engineered by fanatical nationalist Serb groups which have not only been radicalised by the war, but are more fervent than Mr Milosevic.

Against this background, his conciliatory appeal for co-operation from the international community at the weekend has come too late. This is because he has consistently failed to identify Serbia and the Yugoslav army as the aggressor in the war in Croatia and Bosnia-Hercegovina. Yet, when it suited him, particularly under international pressure, Mr Milosevic reined in some radical Serbs, such as Mr Milan Babic, head of the self-proclaimed Serbian republic of Croatia.

Because of Mr Milosevic's unpredictable nature, a senior western diplomat warned: "You cannot yet write off Milosevic – nor can you be sure that sanctions will put an end to the fighting in Bosnia".

The war in Bosnia-Hercegovina is also likely to continue because the fighting there has traumatised and radicalised the Croat, Serb and Moslem communities, all of which are seeking revenge.

In Hercegovina, where there is a heavy concentration of Croats, ultra-nationalist Croatian units, partly supported by Croatia (while others are acting independently), are still fighting to attach Hercegovina to Croatia.

In other parts of Bosnia, Moslem militiamen, incensed by the killings, are determined to continue fighting.

They are no longer convinced that any peace conference or sanctions will stop Serbian paramilitary units – led by Mr Karadzic, Mr Raznatovic, or General Ratko Mladic, commander of the Serb army in Bosnia – creating ethnically-pure regions in Bosnia.

US and UN officials in Belgrade are suggesting that, if the sanctions fail, the use of force will be actively considered. This could involve securing Sarajevo airport, held by Serb militia and the federal army, so as to allow food, medicine and humanitarian supplies into the city.

This speculation has been fuelled by the response from some Serb quarters to the threat of sanctions. Arkan said last week: "I don't give a damn about sanctions. We do not need democracy in Serbia. We only need to be united. We will fight for united Serbian lands. This is war..."

MAN UNDER PRESSURE: Serbia's president Slobodan Milosevic in the streets of Belgrade yesterday

Sports ban 'will make the average guy think'

ONE immediate serious psychological blow to Serbia of UN sanctions was the international sports ban, Our Foreign Staff reports from Belgrade and London. "Banning the Yugoslav football and basketball teams makes the average guy think," said a sports official in Belgrade, as he awaited last night's confirmation of the suspension by the international football association (Fifa). "It is a crushing blow to the man in the street."

The ban prohibits the Yugoslavian team, reckoned among the world's best, taking part in the European championship finals starting in Sweden on June 10. The team will be replaced by Denmark. The International Olympic Committee (IOC) meets next week to discuss whether to exclude Yugoslavia from this summer's Barcelona Games.

Meanwhile, while the International Tennis Federation yesterday banned Yugoslavia from the Davis Cup and similar competitions, Miss Monica Seles of Yugoslavia yesterday continued to defend her French Open tennis title and seemed in no danger of removal from the tournament.

"The French Open is composed of individuals and they in no way represent their country," tennis officials said. "We must make a difference between national teams and individual players." Miss Seles, born in Novi Sad, Serbia, has lived in the US for about six years.

The Yugoslav Olympic Committee last night pleaded to remain in the Barcelona games, which begin on July 25. *Mr Aleksandar Bakocevic*, head of the committee, said: "We expect the IOC to respect Olympic principles and not mix politics with sport."

"We are continuing to train normally for the Olympics," said Mr Rajko Toroman, Yugoslav basketball team coach. Mr Juan Antonio Samaranch, IOC president, said his executive commission would meet in Lausanne to analyse the UN resolution. Absence of the Yugoslavs "would be a blow"; they were "a strong team".

Sanctions 'a devastating blow'

By Judy Dempsey and Laura Silber in Belgrade

AFTER maintaining only last week that sanctions would have no effect on Serbia, officials and economists in Belgrade yesterday admitted the UN's comprehensive package could be a devastating blow to the economy.

"Some sectors of the economy will come to a complete standstill, and the entire economy will be forced just to survive," said Mr Bozo Jovanovic, minister for foreign economic relations. "Serbia would be reduced to conditions of war."

Serbian President Slobodan Milosevic held a closed session of the Serbian Chamber of Commerce late last week, aimed at boosting the morale of the business community, especially exporters. He brushed aside the threat of sanctions, saying Serbia would receive oil and energy supplies from Angola.

But the UN total embargo on all commodities and products means no country will be allowed to sell or supply oil to Serbia; western analysts in Belgrade believe the oil embargo is the most powerful weapon in the UN's armoury of sanctions.

A report by Petroleum Intelligence Weekly late last year said Yugoslav oil output was 79,500 barrels a day, representing only 25 per cent of demand. Gas production was about 3bn cubic metres a year, or about 40 per cent of demand. Western diplomats believe a run-down of oil reserves, the extent of which are unknown, would affect the Serbian-backed Yugoslav army and the entire industrial sector.

Industrial production in various sectors fell in the first quarter of this year by 25-40 per cent against the same period last year. Exports of Yugocars, Serbia's car maker, are almost at a halt because of the war in Bosnia-Hercegovina and the virtual collapse of trade relations. All three of the former Yugoslavian republics provided car components, upholstery, white goods and electronics to Serbia.

Diplomats and economists say sanctions may take some time to bite but that the Serbian leadership will have to continue to print money to pay the workforce. This is likely to fuel inflation, now running at about 100 per cent a month. Economists say that, with prices almost doubling daily, the inflation rate is out of control. Lines of cars queued at many Belgrade petrol stations yesterday, and people were stock-piling foods.

Hundreds left stranded at Belgrade airport

HUNDREDS of travellers were stranded at Belgrade airport yesterday, and thousands more delayed abroad, as UN sanctions on air travel took effect, Reuter reports from Belgrade.

By midday, 18 flights from Belgrade had been cancelled. Only one aircraft had left – to Moscow. The airport was packed with people, screaming babies and armed police.

The UN barred all aircraft from leaving Yugoslavia, except in special circumstances.

Tanjug news agency said Germany, Switzerland and the Netherlands had already enforced the ban.

An official in Belgrade said some aircraft might take off, but could be turned back in mid-flight.

World severs trading links

By Charles Batchelor

TRADING links between the Serbian-led remnant of Yugoslavia and the rest of the world were severed yesterday, one day after the United Nations Security Council imposed a package of comprehensive sanctions.

A freeze on Yugoslav assets may not be formally implemented until today at the earliest and may cause some complications as banks in capitals around the world attempt to disentangle assets held by Serbia and Montenegro and the other former Yugoslav states.

In Britain the trade ban meant that some 50-60 UK companies which have acquired export licences to supply goods to Serbia and Montenegro, the target of sanctions, will be told today that these have been revoked, the Department of Trade and Industry said.

The British government has to obtain an order in council under the Emergency Powers Act which would allow the Bank of England to issue notices to the commercial banks freezing assets. Similar measures imposed at the time of the Iraqi invasion of Kuwait were taken within 24 hours.

Yugoslavia has been reducing assets held in foreign countries in expectation of sanctions; assets in the UK are now thought to be less than $500m against nearly $600m in June 1991.

The freeze would apply to assets held on behalf of government bodies, banks and commercial organisations. But it was not clear if it also covered private individuals' assets, the Bank of England said.

Trade sanctions cover exports to and imports from Serbia and Montenegro as well as any activity calculated to promote trade with those countries. But goods already shipped and imports already in transit will be allowed to complete their journeys, the British trade department said.

Airline flights to and from those destinations are also barred under the UN sanctions. In Belgrade the *Tanjug news* agency said Germany, Switzerland and the Netherlands had already enforced the ban.

British exports to Yugoslavia amounted to £194m ($355m) in 1991 compared with imports from that country of £148m. The top five export categories comprised telecommunications equipment (£32m), miscellaneous manufactured articles (£13m), medicines and pharmaceuticals (£12m), beverages (£12m) and professional and scientific equipment (£11m).

Deterioration in relations stems directly from stalemate at Codesa

ANC focuses ire on S African president

By Philip Gawith in Johannesburg

THE African National Congress's commitment to mass action on an unprecedented scale in South Africa, made at its policy conference which ended yesterday, has come at a time when relations between the government and the organisation have plunged to a low point.

The deterioration in relations flows directly from the failure two weeks ago to make substantial progress at the Convention for a Democratic South Africa (Codesa), where a second round of constitutional talks took place. Since the stalemate the ANC has stepped up its attacks on the government.

Mr Nelson Mandela, ANC leader, launched yesterday a stinging attack on President F.W. de Klerk. Mr Mandela again likened South Africa to Nazi Germany, saying that in South Africa people were killed merely because they were black, and talked about crimes that had been committed by the president. Government ministers have given notice that they will respond in kind.

A return to mass action and confrontation with the state would reflect an attempt by the ANC to supplement its influence at the negotiation table with popular support on the street. An ANC statement said: "We have come to the realisation that unless the majority of South Africans participate actively in shaping the process, negotiations must fail."

Although the organisation stresses that it remains committed to negotiations, the return to "struggle" politics is clearly a victory for militants in the movement. This is typified by the return to prominence of Mr Ronnie Kasrils, a marginal figure in the negotiation process, to head the ANC's campaigns committee.

The chill in the political climate shifted attention from the ANC's four-day policy conference, where there was a mood of realism. This was most prominent in the economic field, with the ANC moving some distance from its initial socialist-style pronouncements.

Although the stress is on policies which will help uplift the country's poorest people, there is no dogmatism about the best way to achieve this.

Policy adopted by the ANC notes that the priority is "not the legal form that state involvement in economic activity might take at any point, but whether such action will strengthen the ability of the economy to respond to the massive inequalities in the country".

The ANC says it will encourage foreign investors, adding: "The most important way to promote foreign investment is to establish a climate of political stability, economic growth and transparent, consistent economic policies."

● Mr de Klerk left yesterday on a week-long visit to Russia, Japan and Singapore, where he will attempt to improve trade and investment links.

Bush denies rift in White House

By Jurek Martin in Washington

PRESIDENT George Bush has denied rumours that he is considering turning to Mr James Baker, secretary of state, to bring order to the White House and direction to his re-election campaign.

While campaigning in California he denied a report that Mr Robert Mosbacher, his campaign chairman, had urged him last week to fire Mr Samuel Skinner, the White House chief of staff, and replace him with Mr Baker.

A State Department spokeswoman also said there had been no discussions between Mr Bush and Mr Baker, who are old friends, about a job change. Mr Baker ran Mr Bush's unsuccessful campaign for the Republican nomination in 1980 and in his position as White House chief of staff was a key figure in the Reagan re-election campaign of 1984.

Mr Mosbacher was more equivocal. Mr Baker, he told the Washington Post newspaper, "can be part of the solution to any problem". But he refused to say whether he had urged the president to move him back to his old job.

Criticism in Washington of Mr Skinner's record has been growing since the former secretary of transport was brought in to replace Mr John Sununu in the White House late last year.

The president's lacklustre and frequently unfocused performance in recent months has been ascribed to the lack of political direction he has been receiving from his chief of staff.

On the political front, there have been complaints about lack of co-operation between the White House and local Republican election efforts. The White House has also seemed slow to react to the growing threat of the independent candidacy of Mr Ross Perot, concentrating instead on traditional attacks on the profligate tendencies of the Democratic party.

There has been uncertainty over how best to respond to the Los Angeles riots and, most recently, confusion over the degree of support Mr Bush should lend Vice-President Dan Quayle in his assault on the effects popular television has on traditional family values.

According to the polls, the president is also not getting much credit for recovery in the economy.

Although Mr Mosbacher may have reflected these concerns, the former commerce secretary is not an influential campaign chairman. His reputation was damaged by his role as architect of the president's trip to Japan in January, a disastrous excursion which is now seen as the beginning of the steady decline in Mr Bush's popularity.

On the election trail: an ebullient Ross Perot meets supporters at a nomination convention in Little Rock, Arkansas, at the weekend

Japan to push through law on peace force

By Stefan Wagstyl in Tokyo

JAPAN'S ruling Liberal Democratic party is this week planning to force through the Diet controversial legislation which would allow Japanese troops to serve on United Nations peace-keeping missions abroad.

After nearly 18 months of debate the LDP last week secured support for the bills from two centrist parties.

Despite prolonged negotiations, the ruling party failed to reach a compromise with the main socialist opposition party, the Social Democrats, and is braced for some rowdy scenes in the Diet. The socialists have threatened to disrupt proceedings.

The government is likely to triumph but it has had to dilute its original proposals. In particular, the Diet will have a right of veto over each proposed mission, including planned Japanese participation in United Nations action in Cambodia.

The bills were conceived by the Ministry of Foreign Affairs at the height of the Gulf crisis, in response to international criticism of Japan's failure to send personnel to the US-led allied force.

The ministry's proposals sparked a wide-ranging debate about Japan's role in the world, with the country dividing between those wanting the nation to have more influence in international affairs and those claiming Japan's pacifist constitution prohibited troops going overseas, even on UN missions.

With the Gulf crisis raging, public doubts about the risks of sending Japanese servicemen into a war zone forced the government to abandon its original plans. But once fighting ended, support grew for Japan to increase its physical, and monetary, contribution to international affairs.

The dispatch of a squadron of minesweepers to the Gulf last summer prompted little criticism, either domestically or from the governments of China and other Asian countries which had been quick to condemn Japan in the past for anything smacking of military action.

Drafting legislation involved tortuous inter-party discussions as the LDP controls the lower house in the Diet but lacks a majority in the upper house. LDP leaders also wanted to win support from as many parties as possible – so that all could share the blame if the sensitive legislation turned into a political millstone.

Last December the centrist Komei and Democratic Socialist parties agreed to come on board. With their support the LDP forced legislation through the lower house amid angry scenes.

The LDP's energies were then absorbed for some time in annual budgetary talks and various financial scandals. Even though Mr Kiichi Miyazawa, prime minister, pledged to support the bills he seemed too weak to secure the necessary agreements. Some party leaders wanted action to be postponed – at least until after elections to the Diet's upper house, to be held in July.

But a recent surge in pro-LDP sentiment in opinion polls appears to have emboldened the party. The final draft of the legislation also contains many concessions to the cautious. Not more than 2,000 Japanese troops will serve in any peace-keeping force; they will be limited to support roles, such as transport, and will not be permitted to serve in frontline units; and they will be allowed to use arms only in self-defence. Furthermore, each time the government decides to join a peace-keeping operation it must seek Diet approval.

Green shoots of good intention from business

Christina Lamb in Rio de Janeiro hears the boardroom view of the Earth Summit

MOST prominent in the approach to the Earth Summit in Rio de Janeiro this week has been the international business community, not environmental groups.

Never have business people been so active in a UN conference.

Captains of industry from all over the world have addressed packed meetings in Rio last week. Such phrases as "environmental responsibility" have tripped off tongues.

Yet many of the chief executives present run the world's most polluting industries, such as car and chemical manufacturing. Changes decided at the UN summit will cost them, but they are not here to lobby against it. Rather, they are vocal in calling for regulations.

Leading the green business offensive is Mr Stephan Schmidheiny, a Swiss billionaire from the asbestos trade and now principal adviser on business and industry to Mr Maurice Strong, conference secretary-general.

Mr Schmidheiny insists that industry is changing: "Profit and ecology are linked. We're convinced that, unless we change course, we'll ruin our future. Soon it will be impossible to separate business excellence and environmental concern."

He runs the Business Council for Sustainable Development (BCSD), which brings together heads of 48 leading corporations – such as Dow Chemical, Du Pont, Royal Dutch Shell and Mitsubishi – to formulate industry's position for the conference.

The outcome of 18 months of meetings is a report calling for new partnerships of government and the private sector, and proposing payment for the use of natural resources, technological co-operation between the global north and south, and tougher rules on pollution so that the polluter pays.

While the US government remains hostile to environmental regulation, some of the leading US business executives are in Rio calling for it.

Mr Frank Popoff, head of Dow Chemical, says: "It's very much in our interest to get regulation which will enhance business moves to sustainable development."

Sustainable development - that's the mantra of the new green industrialists. Mr Jan-Olaf Willums, executive director of the International Chamber of Commerce Office on Environment, defines it thus: "Environment is an asset. Sustainable development is about learning to develop and maintain this asset so we live off the income, not the capital."

However, Mr Richard Lapper, industry adviser for the World Wide Fund for Nature, wonders: "I don't know if any of them realise how sweeping the changes must be. Industry is driven on a set of rules which tends to work against the environment because it does not internalise environmental costs. Sustainable development means completely rethinking this."

Mr Kenny Bruno of Greenpeace is sceptical: "By proclaiming environmentalism, these companies are trying to avoid responsibility for the fact that their products and practices have wreaked environmental havoc."

But Mr Carl Hahn, head of Volkswagen, argues: "We have concrete examples of how we have reduced pollution. We should not be criticised because we too want to live in a better environment."

Mr Gabriele Cagliari, chairman of the Italian energy company ENI, admits there is a profit motive at work: "The market will punish those who do not change.

It is cheaper to produce non-polluting products than bear the costs of the problems caused by polluting."

The message is that what is good for the environment need not be bad for the economy. There can even be benefits.

Mr Joseph Connor, head of the ICC, says: "The corporate challenge is to take advantage of green consumerism and opportunities such as waste recycling and non-polluting products".

The market for enviromental products in Europe to the end of this decade has been estimated at £600bn.

But for industry to change profoundly, Mr Schmidheiny repeats, it needs government incentives and penalties as carrots and sticks.

"The nations most successful in wielding these will be those whose industries prosper, he says."

Green lobby appeals for Gatt reform

UK environmental groups heading for the Earth Summit, which opens in Rio de Janeiro this week, launched at the weekend a series of attacks on free trade and the General Agreement on Tariffs and Trade (Gatt), the world's main trade watchdog, writes David Dodwell, World Trade Editor.

Reports from the World Wide Fund for Nature, Friends of the Earth and the Green party argue that free trade encourages unsustainable development and serves the short-term business interests of multinational corporations, potentially at the environment's expense.

They call for reform of the Gatt, with environmental protection being given higher priority than free trade. Trade liberalisation should be conditional on "environmental impact assessments", and raw commodity prices should be raised to take proper account of environmental costs.

NEWS IN BRIEF

Indonesia opposition in show of strength

INDONESIA'S populist opposition party, campaigning against government corruption and press censorship, claimed a street turnout of 3m supporters yesterday - the last campaign day in the capital before the June 9 election, Reuter reports from Jakarta. This is the biggest street demonstration since general election campaigning started three weeks ago.

"The biggest enemy is corruption not inflation," leaders of the Indonesian Democratic party (PDI) told a big crowd in Jakarta. They said police reported that 3m PDI supporters had gone into the streets, dwarfing Saturday's estimated 1m people campaigning for the ruling Golkar party.

Philippine poll result by June 15

The winner in the May 11 Philippine presidential election could be proclaimed by Congress, which is conducting an official vote count, on or about June 15, writes Jose Galang in Manila. Mr Fidel Ramos, the "annointed" candidate of President Corazon Aquino, who led during the unofficial count, claimed victory over the weekend, although opponents dismissed this as premature.

Rabuka poised to regain control

Retired Major-General Sitiveni Rabuka is poised to take control of Fiji again after gaining his party's endorsement yesterday as the new prime minister, Reuter reports from Suva. This follows the first election since his 1987 military coup.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

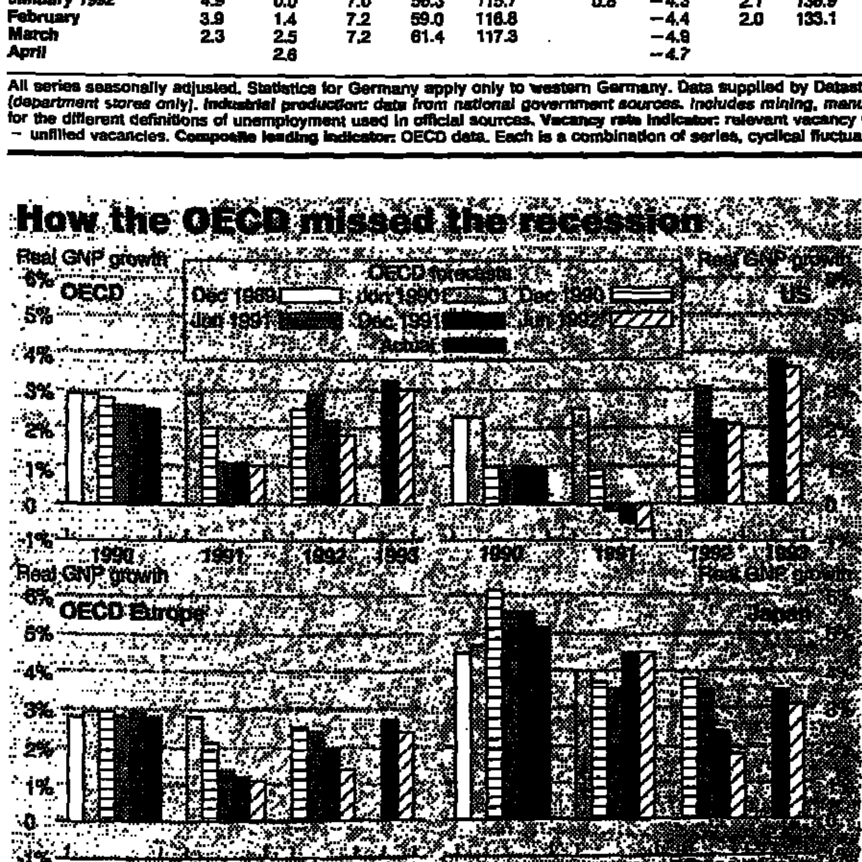
Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	UNITED STATES					JAPAN				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	102.9	100.0	100.0	2.6	100.0	96.7
1986	105.7	101.0	6.9	98.0	108.1	106.5	99.7	2.8	94.3	105.4
1987	108.3	105.9	6.1	105.5	109.9	113.6	103.1	2.9	108.3	115.4
1988	112.2	111.6	5.4	106.1	114.3	122.8	112.9	2.5	135.9	123.0
1989	114.7	114.5	5.2	99.3	113.3	132.8	119.9	2.2	147.0	128.6
1990	114.2	115.7	5.4	84.5	109.1	142.0	125.3	2.1	149.7	124.6
1991	112.0	113.5	6.6	61.9	114.7	145.0	128.0	2.1	144.1	123.6
2nd qtr.1991	−1.6	−2.8	6.7	62.9	112.1	2.6	3.1	2.1	146.4	124.3
3rd qtr.1991	−1.4	−2.1	6.7	60.9	112.6	1.0	1.2	2.1	141.6	124.8
4th qtr.1991	−0.5	−0.5	6.9	59.1	114.7	1.9	−1.6	2.1	140.3	123.6
1st qtr.1992		1.3	7.1	58.9	117.3		−4.5			
May 1991	−1.1	−2.7	6.7	62.4	111.8	1.8	4.3	2.1	146.4	124.5
June	−1.7	−2.5	6.8	63.7	112.1	3.4	1.1	2.1	140.4	124.3
July	−1.2	−2.1	6.7	61.1	112.1	−0.3	2.5	2.2	149.8	124.3
August	−1.8	−2.3	6.7	60.6	112.3	4.5	0.1	2.1	137.6	124.5
September	−1.2	−2.0	6.7	60.9	112.6	−1.2	0.9	2.1	137.3	124.8
October	−0.8	−1.4	6.8	58.4	113.1	1.6	−1.8	2.1	143.5	124.5
November	−1.3	−0.2	6.8	59.1	113.9	4.1	−1.0	2.1	139.0	124.2
December	0.5	0.2	7.0	59.8	114.7	0.0	−1.9	2.1	138.3	123.6
January 1992	4.9	0.0	7.0	56.3	115.7	0.8	−4.3	2.1	136.9	123.5
February	3.9	1.4	7.2	59.0	116.8		−4.4	2.0	133.1	123.5
March	2.3	2.5	7.2	61.4	117.3		−4.9			
April		2.6					−4.7			

	GERMANY					FRANCE				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	104.3	100.0	100.0	10.2	100.0	101.8
1986	103.3	102.2	6.4	136.4	104.1	102.4	101.1	10.4	107.2	106.8
1987	107.4	102.5	6.2	149.4	105.3	104.5	103.1	10.5	117.6	108.2
1988	110.6	106.2	6.2	164.7	111.4	107.9	107.3	10.0	134.9	113.1
1989	114.2	111.4	5.6	218.9	114.3	109.6	111.3	9.4	161.1	112.8
1990	123.5	117.2	4.9	261.5	115.0	110.1	112.7	8.9	166.0	107.1
1991	131.0	120.8	4.3	270.9	112.1	109.7	113.3	9.4	130.0	107.9
2nd qtr.1991	10.3	5.6	4.3	277.5	113.4	−1.4	0.2	9.3	128.9	108.5
3rd qtr.1991	0.9	1.8	4.4	277.4	112.9	0.0	−0.5	9.5	132.1	108.8
4th qtr.1991	1.1	0.1	4.3	282.6	112.1	0.2	1.7	9.7	124.0	107.9
1st qtr.1992	−3.0	0.9	4.3	280.6	112.0	−1.0	1.2	9.9	119.2	109.2
May 1991	7.3	3.2	4.3	276.7	113.3	−2.0	0.3	9.3	129.3	108.0
June	13.7	6.8	4.3	279.2	113.4	−2.5	0.3	9.4	131.8	108.5
July	4.6	3.6	4.4	279.1	113.0	3.2	−0.5	9.5	134.6	108.9
August	−2.0	1.3	4.4	279.9	113.2	−0.6	−0.5	9.5	133.6	108.8
September	0.2	0.7	4.4	272.5	112.9	−2.3	−0.4	9.6	127.8	108.8
October	3.4	0.7	4.4	283.2	112.5	1.4	0.7	9.7	124.2	108.3
November	−0.2	1.7	4.3	259.9	112.0	0.7	1.6	9.7	125.5	108.1
December	0.1	−2.1	4.3	284.0	112.1	−1.5	2.8	9.8	122.6	107.9
January 1992	−1.8	0.2	4.3	273.0	112.1	0.2	0.4	9.8	121.7	108.3
February	−1.6	3.4	4.3	283.6	112.1	3.3	0.6	9.9	118.8	108.8
March	−5.5	−0.9	4.4	284.5	112.0	−6.5	2.5	9.9	117.2	109.2
April				282.8						

	ITALY				UNITED KINGDOM				
	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	9.6	103.9	100.0	100.0	11.2	100.0	102.2
1986	108.0	104.1	10.5	110.7	105.2	102.4	11.2	116.1	105.3
1987	113.9	106.8	10.9	112.9	110.7	105.7	10.3	141.2	109.6
1988	109.8	114.2	10.9	117.9	117.7	109.5	8.5	144.3	108.0
1989	116.4	118.7	10.9	116.1	119.8	109.9	7.1	124.7	105.3
1990	115.0	118.0	10.3	112.6	120.4	109.3	6.8	97.9	103.8
1991		115.3	9.8	115.7	119.5	106.0	8.9	68.7	108.5
2nd qtr.1991	−7.9	−2.1	10.0	114.5	−2.0	−6.0	8.7	64.4	106.8
3rd qtr.1991	0.9	−4.3	9.6	115.4	−0.5	−2.2	9.4	61.9	108.7
4th qtr.1991		−1.0	9.9	115.7	0.4	−0.6	9.7	66.4	108.5
1st qtr.1992				114.7	−0.4	−1.5	10.2	73.6	109.2
1991 May	−9.8	−2.5	n.a.	114.2	−3.4	−8.1	8.7	83.4	106.4
June	−1.8	0.2	n.a.	114.5	−0.5	−5.1	8.9	58.9	106.8
July	−3.7	−2.0	n.a.	114.8	−0.6	−2.0	9.2	60.9	107.3
August	1.6	−7.7	n.a.	115.3	−0.2	−2.6	9.4	62.4	108.1
September	−2.6	−3.1	n.a.	115.4	−0.7	−2.0	9.5	62.3	108.7
October		−2.2	n.a.	115.4	−0.1	−1.6	9.6	61.1	109.1
November		1.4	n.a.	115.5	1.6	−0.6	9.7	64.8	108.8
December		−2.3	n.a.	115.7	−0.4	−0.4	9.9	73.2	108.5
1992 January		−1.9	n.a.	115.5	0.8	−1.0	10.1	72.1	108.2
February		−0.3	n.a.	115.3	1.3	−1.2	10.2	73.4	108.7
March			n.a.	114.7	−3.2	−2.2	10.2	75.3	109.2
April					1.2			70.6	

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations which usually precede cyclical fluctuations in general economic activity.



Economic forecasts can endanger your wealth

IF FORECASTERS cannot predict the future, should they have one? This is a question that business people and ministers are bound to ask themselves.

True, forecasters have done well enough when economies perform in line with their long-term trends. But so would simple extrapolation. Forecasting has been breaking down whenever sharp changes come along, which is precisely when accuracy is most needed.

Consider the recent performance of that doyen of forecasting institutions, the Organisation for Economic Co-operation and Development. As late as June 1990, the OECD forecast US economic growth at 2.3 per cent in 1991 over 1990. This prediction was then cut in every subsequent forecast. Most recently, the economy is estimated to have declined by 0.7 per cent.

For OECD Europe, the 1991 error was similar in nature to that for the US, but not as large. Meanwhile, Japan's economy was better behaved than both the US and the European in 1991, but is now making up for its past good behaviour: the December 1990 forecast of 3.8 per cent for economic growth between 1991 and 1992 has already drooped to 1.8 per cent. Further reductions in the forecast are likely.

People who wagered their wealth on what the OECD was predicting two years ago have a good chance of being bankrupt today. Not, it should be stressed, that they would have done better by relying on other mainstream forecasters. Like sheep, these have all gathered closer to one another than to the truth.

Forecasts published in the International Monetary Fund's World Economic Outlook have been virtual twins of those from the OECD. The British Treasury failed to forecast the boom in the UK economy between 1986-88, the recession that started in late-1990 and its subsequent persistence. Many of those who make their living in the City have followed closely on the Treasury's heels.

The Gulf war is one reason that many forecasts for 1991 went awry. But it is only a part of the story. Despite 50 years of practice and huge increases in computer power, the ability of economists to provide precise forecasts, even for the near term, is very much in question.

One explanation for persistent failure is change in policy regimes. Capital market liberalisation, for example, makes past behaviour almost irrelevant to the future. Time might remedy this problem, though not if such changes will themselves be a persistent feature of economic life.

There is a more fundamental worry. Forecasting assumes that people's responses to past data will be repeated. Suppose, instead, that people's expectations of the future are determined not by past economic data but by far more complex visions of how the world functions. Behaviour then would not repeat itself, because history does not.

In response to past forecasting failures, some economists are abandoning economics – the favoured approach being use of a Bayesian Vector-Autoregressive (BVAR) model. Professor Michael Artis of the University of Manchester has followed several US economists in this direction. The name is fancy; the reality less so. Under this approach the computer simply looks for statistical relationships in the data.

Even if such methods were to work, however, they would be of no help to policy-makers. They want to know what would happen if the rate of interest were lowered, to take one example. Economists cannot abandon economics completely.

What are the lessons? First, forecasters should recognise the imprecision of what they do by putting explicit intervals around all their forecasts; second, they should rely still more on judgment than they already do.

Anybody who remembered Irving Fisher's debt-deflation theory of the Great Depression would have had a better understanding of the forces recently driving the main economies than would the orthodox modellers. As with chess at its highest levels, human intuition and experience can still rival the power of the computer. They are likely to do so for a long time.

Martin Wolf

Israeli Air Force men, dancing in line behind a rabbi on the plaza before the western wall in Jerusalem, yesterday celebrated the 25th anniversary of the Israeli reunification of the city

Hardening eyes in Gaza

Hugh Carnegy finds conditions worsening in the occupied territories

DR MAHMOUD ZAHAR, a prominent supporter of the Islamic fundamentalist movement in the Gaza Strip, shed few tears last week over the fate of a 15-year-old Israeli schoolgirl stabbed to death in a Tel Aviv suburb a few days before by a young unemployed Palestinian.

In fact, he was indignant. Why was the world so concerned about the killing of one Israeli girl when, for years, countless Palestinian children had been killed by Israelis occupying their land, he asked. "We do not advocate killing children, but this is a war."

As Israelis celebrate the 25th anniversary of their victory in the Six-Day War of June 1967, there is ample evidence of the iron fist which the Israeli army deploys to keep order in the West Bank, Gaza Strip and east Jerusalem – and of the bitter resistance to it.

In the Jabalya refugee camp in Gaza, the sandy alleyways between the squalid dwellings are scorched black by burning roadblocks thrown up almost daily by rioting youths. A watchtower reminiscent of a prison camp and surrounded by high fencing was erected recently to help the troops keep a lid on the unrest.

"The level of frustration on the ground has substantially increased," said a foreign aid worker with several years of experience in Gaza. "The economic situation has got worse and worse. This is all contributing to a growing sense of helplessness and frustration."

People in Gaza talk about a watershed in the tiny, overcrowded territory after the Gulf war early last year. They say army policy became tougher against a population that had sided with Iraq against the US and its allies, including Israel.

The authorities imposed much tougher conditions on Gazans working in Israel, reducing numbers and weakening the main prop of the impoverished Gazan economy. The population of Gaza has almost doubled since 1967 to 750,000, of whom 550,000 are refugees registered with UNRWA, the UN's Palestinian refugee welfare organisation. It is projected to double again in 20 years.

The workforce totals about 120,000. Until the Gulf war, almost half depended on jobs in Israel – now their number is below 50,000 and may be as low as 30,000. Given unemployment of 30-40 per cent, this has knocked a hole in Gaza's income and is set to worsen.

The mass unrest which dominated the first three years of the *intifada*, the uprising against Israeli rule which erupted in 1987, faded to some extent – but three other deadly trends have developed.

First, the Islamic fundamentalist group Hamas, a newly powerful force in the strip, adopted the use of arms against the occupation. Like the Palestine Liberation Organisation which it rivals, Hamas had eschewed the use of guns, chiefly for fear of provoking an even tougher response from the Israelis and losing the support of international public opinion.

Now its fighters frequently ambush troops and it backs attacks on individual Israelis. "Did public opinion liberate our land? Did public opinion restore out rights?" asks Dr Zahar rhetorically.

Second, the army stepped up its use of undercover squads, which have shot dead some 40 Palestinians in the past year.

Third, there was intensification of a trend of brutal killings by Palestinians of compatriots accused of collaboration with Israel.

For the PLO, this has been a testing time. The Madrid peace conference of last October, where Palestinians put their case with unprecedented force, won considerable support in Gaza, home of Dr Haidar Abdel Shafi, head of the Palestinian delegation.

Since then, though, the slow pace of the negotiations has put pressure on the PLO to show results or lose further support to Hamas, which rejects the peace process.

Mr Awad Mabhouh, a political activist and resident of Jabalya, says most Gazans realised the PLO had little choice but to join the peace talks and they supported them. But they also applaud the gunmen of Hamas for keeping pressure on Israel.

He still believes that a Palestinian state will be created. A key question in Gaza, where the vast majority of refugees came in 1948 from within what is now Israel, is whether that state should be limited to the West Bank and Gaza, as the PLO concedes, or include all the territory between the Mediterranean and the Jordan River, as Hamas says.

Mr Mabhouh says his aged father, still holding the key to his house (long since destroyed) near the Israeli city of Ashqelon, would never give up the claim to return. But the son is more pragmatic: "If the PLO says we should settle for compensation, we will accept it instead of going back."

East Jerusalem anniversary leads to party discord

By Hugh Carnegy in Jerusalem

ISRAEL'S celebrations of the 25th anniversary of its capture of Arab east Jerusalem turned into a discordant chorus of competing political claims yesterday, as leaders of the ruling Likud party and opposition Labour sought to turn the occasion to advantage in the campaign for the general election on June 23.

Both Labour and Likud reiterated the popular pledge first made when Israeli forces took east Jerusalem from Jordan on June 7, 1967. "Our capital is one Jerusalem, forever," said Mr Yitzhak Shamir, prime minister. "Never will it be a capital for a foreign power," he added, referring to the Arab claim that the city be the capital of a Palestinian state.

But the two parties were at loggerheads over the celebrations. Mr Ariel Sharon, housing minister, pledged on a visit to a new Jewish settlement in the Moslem Quarter of the Old City to settle Jews in every Arab district, most of which are virtual no-go areas for Israelis. The settlement policy has been condemned as dangerously provocative by Labour and Mr Teddy Kollek, mayor of Jerusalem.

Some 150,000 Arabs still live in the city, making up more than 25 per cent of the population. Israel had barred Palestinians from the West Bank and Gaza Strip from entering Jerusalem during the celebrations, which coincided with the anniversary in the Hebrew calendar.

Mr Yitzhak Rabin, the Labour leader and army chief of staff during the Six-Day War of 1967, was kept off the list of speakers at a ceremony attended by all parties for signing a "Jerusalem covenant" to reiterate Israel's claim to sovereignty over the city. Mr Kollek refused to speak and signed the document under protest, objecting to its right-wing ideological tone.

Labour hit back, even so, organising rallies at which Mr Rabin and other former senior generals stressed that it was under their command that Israel had achieved its greatest military triumph.

As though to blunt the message, Mr Shamir's government ordered a renewed wave of air strikes on Hizbollah Moslem fundamentalist militia targets in Lebanon yesterday, as a 10-day old onslaught there by Israeli forces continued. One raid was inside territory controlled by Syrian forces.

Trade groups expected to agree merger

By Charles Batchelor

BRITAIN'S chambers of commerce and chambers of trade are on the verge of burying their long rivalry and hope to reach agreement on a merger by the autumn.

A link-up between the Association of British Chambers of Commerce (ABCC), with 83,000 member companies, and the National Chamber of Trade (NCT), with 150,000 members, mainly in retailing, would create a business organisation second in size only to the Confederation of British Industry with 250,000 members.

A merger would also bolster the ABCC's programme to reorganise and strengthen the chamber of commerce network to make it more of a match for the large officially recognised chambers on the Continent. The ABCC has launched a recruitment drive to bring membership to 150,000 by 1994 as part of the programme.

"A merger will complicate our development strategy but it will add new fabric and build membership," said Ms Janet Poshtar, spokeswoman for the ABCC. The chambers of commerce and of trade have made many attempts in recent years to merge but they failed over disagreements about their respective voting strengths.

Nissan UK faces fresh round of legal action

By Kevin Done,
Motor Industry Correspondent

A FORMER executive of Nissan UK (NUK), the private motor distributor, is claiming damages of £1.3m for alleged breach of contract and wrongful dismissal three years ago.

The action embroils NUK in further legal conflict in addition to its current investigation by the Inland Revenue – the UK tax authorities – for alleged corporation tax fraud, and its own multi-million pound damages claim against Nissan Motor, the Japanese car maker, in Tokyo.

The hearing of the alleged wrongful dismissal of Mr Stan Cholaj, former assistant managing director of NUK, is scheduled to begin tomorrow at the High Court in London. It will examine the management style of Mr Octav Botnar, the 78-year-old Nissan UK chairman and managing director.

It is unclear, however, whether Mr Botnar will give evidence, as he has remained overseas since the end of January, when a warrant for his arrest was issued by the Inland Revenue.

Mr Botnar was also named in Teesside magistrates court, north east England, in January in charges brought against the manager of a Norwegian freight transport company, alleging a corporation tax fraud in which Nissan UK pre-tax profits had been understated by £100m.

The hearing of Mr Cholaj's action was due to start in late February, but was adjourned because Mr Botnar was too ill to travel from his Swiss home to undergo cross-examination in London.

A few weeks later in mid-March Mr Botnar travelled to Tokyo, to attend the preliminary hearings of the arbitration of Nissan UK's claim for damages of hundreds of millions of pounds against Nissan Motor, the Japanese car maker.

The case involves Nissan Motor's decision to terminate NUK's exclusive contract to market and distribute Nissan vehicles in the UK, plunging the Botnar-controlled companies into turmoil.

Mr Botnar, who was born in east Europe, but who holds a German passport, had held the exclusive Nissan franchise in the UK for 21 years.

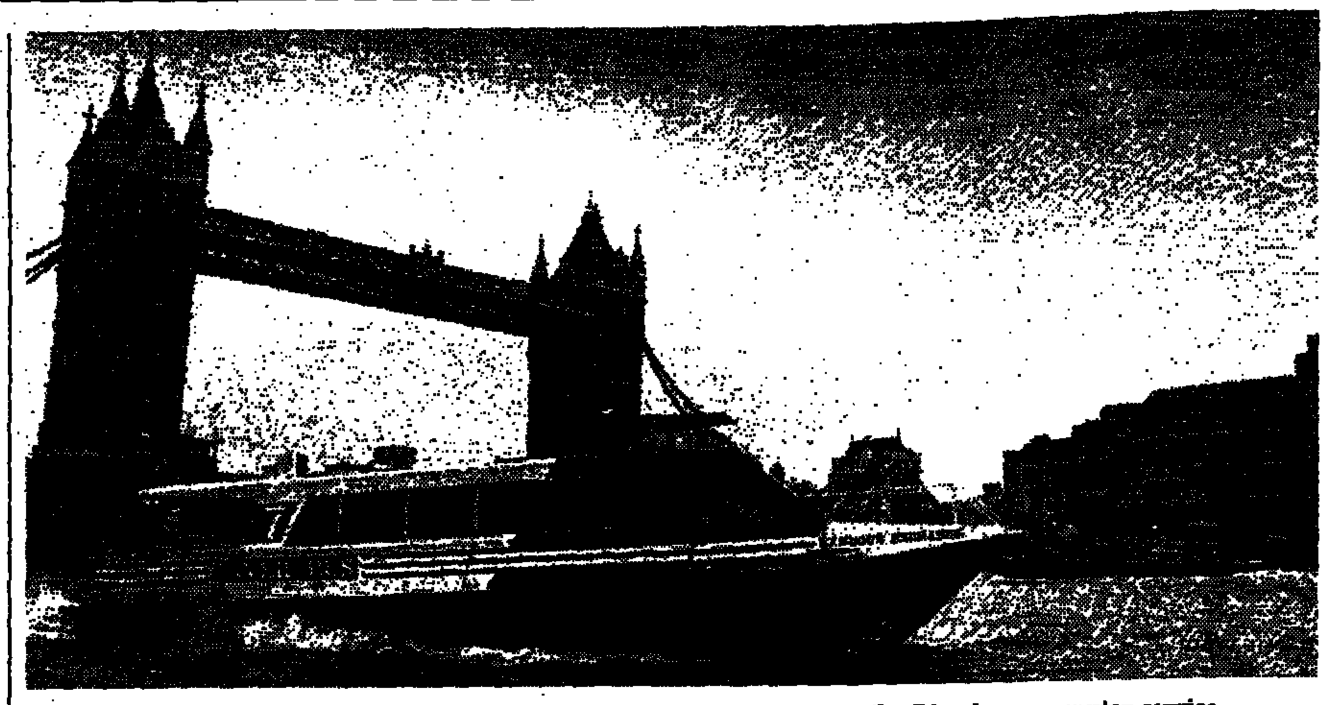
Nissan UK's problems mounted last year when the Inland Revenue mounted a dramatic dawn raid on 13 separate locations including company offices and the homes of a number of executives.

Mr Cholaj, meanwhile, is claiming that Mr Botnar's behaviour undermined his position as an assistant managing director of NUK. He is now managing director of the importer/distributor company for SEAT cars in the UK.

He alleges that Mr Botnar belittled him in front of junior employees, instructed some employees not to deal with him, refused to allow him to attend some meetings within his area of responsibility, and took away many of his responsibilities in April/May, 1989 without prior consultation.

Mr Cholaj claims that his £125,000-a-year contract with NUK had a 10-year notice period. He is also claiming compensation for loss of annual bonus, loss of the use of two company cars and loss of a 3 per cent interest rate subsidy on his £80,000 mortgage.

Nissan UK denies that there was any breach of contract. It claims that under the terms of NUK's articles of association Mr Botnar as managing director exercised the powers of the board of directors. It claims that with these powers Mr Botnar was empowered re-arrange the duties of his assistants.



No more sinking feeling: the O&Y administrators have issued a reprieve to the Riverbus commuter service

Riverbus survives to sail another day

By John Authers

LONDON Riverbus, the Thames commuter line, won a reprieve yesterday when Ernst & Young, the administrators of Canary Wharf, said it could continue services even though it depends on Olympia & York (O&Y) as its main backer.

Analysts had expected the loss-making service, operated by high speed catamarans between Chelsea and Greenwich, to be an early casualty once O&Y went into administration. It looked vulnerable and staved off an earlier collapse only when a consortium of five property developers injected £2.5m and the government offered a £500,000 grant.

The reprieve was welcomed yesterday by P&O, the shipping company and developer of Chelsea Harbour, which owns the service in partnership with O&Y.

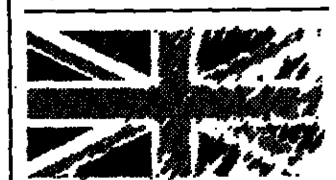
P&O manages Riverbus via seconded managers, but has no liabilities, and owns less than 6 per cent of the issued share capital.

A P&O spokesman said: "We are quite happy to leave our manager in there to keep it running. That seems the most sensible thing to do because it's the only form of commuter transport on the river at the moment."

Riverbus seats, however, were in demand yesterday as sightseers visited the riverside Canary Wharf complex in east London.

"The first boat was full and we had to turn people away in the end because it was so busy. We've been doing extremely well," said one Riverbus employee.

Britain in brief



Scientists plan strike ballot on pay levels

More than 200 British nuclear scientists will this week vote on strike action over pay because their colleagues from other countries working on the same European Community project get paid twice as much.

A 10-year campaign for pay parity for the Britons who work on the Joint European Torus at Abingdon, Oxon, has failed despite a European Parliament request for an end to the discrimination.

The British scientists are employed by the UK Atomic Energy Authority and receive between £15,000 and £25,000. Scientists doing the same work from other countries doing the same work are employed by the European Commission receive between £30,000 and £50,000, according to the IPMS civil service union.

Tough talks likely on Ulster

Sir Patrick Mayhew, Northern Ireland secretary, faces a tough meeting today with the province's political leaders that could decide the future of the government's latest attempt to resolve political differences by dialogue.

If a dispute between unionist and nationalist leaders over procedure cannot be resolved, Sir Patrick will soon face the choice between imposing his own decision – or shelving the five-week old initiative.

Sir Patrick may decide to force the pace – by deciding unilaterally on a date for strand two, for instance – or to suspend the initiative in the hope that it could be revived later.

Shake-up urged in textiles

The textile industry in southern Scotland needs radical restructuring and an infusion of new capital and ideas if it is to survive.

These are the recommendations of a report by US consultants into spinning, weaving and knitwear, the main industry in the region, which employs 5,500 workers. It was commissioned last year by Scottish Borders Enterprise, the local enterprise company, after the loss of more than 1,000 jobs and numerous mill closures in the past two years.

The consultants, Werner International, say smaller borders textile groups should seek Japanese, EC and US textile companies to buy them or set up joint ventures with them.

Airline launches Stockholm link

Cityair Scandinavia, the Swedish carrier, is launching services today from London to Stockholm in what is claimed to be Europe's first city centre to city centre jet link. Flights from London City Airport to central Stockholm are due to begin following the decision by the Swedish authorities to reopen Brumma airport, which was closed 10 years ago because of the problem of aircraft noise.

Aviation officials in Stockholm approved the route because the airline is using BAe 146 jets, which are quieter than most other passenger aircraft.

Mr Malcolm Ginsberg, a spokesman for London City Airport, said: "We believe this is the first city centre to city centre route in Europe."

Report points to cheap petrol

Motorists might not believe it, but the price of petrol last year in real terms and net of taxes was the cheapest since 1969, and the second cheapest ever, according to a new report on the motor fuels market in the UK.

The report by Sunningdale Publications says tax-free petrol price in real terms was less than a third of what it was in 1912, the first year of records, although the tax element has tripled in the same period. The net price has been similar in ten other years, but only in 1969 was it marginally lower.

In terms of consumer price, while competition and varying exchange rates mean the situation can change rapidly, the report finds that in February this year the UK had the second-lowest petrol prices in Europe, after Switzerland.

Upturn 'likely' in housing

The potential for recovery in the housing market is more firmly based than for any time in the past three years, a report by Cambridge Econometrics says today.

Prospective purchasers' ability to afford to buy homes had returned to levels which existed before the 1988-89 boom, and would continue to improve. Mortgage repayments, which accounted for 44 per cent of average earnings in the first quarter of 1990, fell to 28 per cent by the end of last year.

Workers face pay freeze

Thousands of shopworkers face pay freezes in 13 retail companies this year, while other retailers are offering rises above the rate of inflation, according to IDS, the independent pay analysis body. Non-food companies such as Allied Maples, Foster Menswear and Asda which will not increase pay this year. Others, including Habitat, House of Fraser and Robert Dyas will review their freezes in six months.

Closure threat at coal mines

Two coal mines in the north east of England may close shortly, if reviews taking place today and next week go against them. That will leave only 3 working pits in the region.

Easington, in Durham, today faces a review that will decide its future, and nearby Vane Tempest, near Newcastle, will be reviewed shortly afterwards.

ENGINEERING
& CONSTRUCTION
MINING
HOUSING
PROPERTY

COSTAIN

COSTAIN GROUP PLC

CONSTRUCTION CONTRACTS

Building ferry terminal at Hull

The Fairclough Civil Engineering specialist, **FAIRCLOUGH MARINE**, has been awarded a design and construct contract worth almost £11m by Associated British Ports for a roll-on/roll-off ferry terminal at Hull.

The 13-month contract will include the construction of a jetty, a hydraulically operated shore ramp, berthing dolphins, protection dolphins, a traffic underpass, roadworks, a container handling area and a large car parking area of 12.3 acres.

Due to start on site in July, Fairclough Marine anticipates completion in August 1993. Being constructed on behalf of North Sea Ferries, the roll- on/roll-off facility is being designed for the new 23,000 tonne "superfreighter" ferries which are to be introduced.

Fairclough Civil Engineering has also been selected to construct the A27 Westhampnett bypass near Chichester, West Sussex, for the Department of Transport under a contract valued at almost £7m.

Scheduled for completion in the spring of 1993, Fairclough's contract comprises a two mile dual two-lane carriageway bypassing the village of Westhampnett. The project also includes alterations to local roads affected by the bypass.

Fairclough Civil Engineering is part of AMEC, the international construction, engineering and development group.

£24m orders awarded to Hall & Tawse

HALL & TAWSE, the construction division of Raine Industries, has been awarded £24m worth of contracts.

Nottingham-based Hall & Tawse Eastern has won a £2.7m contract to construct a two-storey science and technology building at Derbyshire College of Higher Education - plus a £1.6m contract to build a research centre in Loughborough for British Gas.

Hall & Tawse Scotland has secured two contracts totalling £3.1m to fit-out Marks & Spencer stores in Paisley and Inverness.

A 69-bed hospital is being constructed in Reading by Hall & Tawse Southern for Independent British Hospitals at a cost of £2.7m.

The Stourbridge-based Hall & Tawse Western has been awarded refurbishment contracts for £600,000 with the West Midlands Police Authority, and for £400,000 with Birmingham City Council, to upgrade Cockshut Hill School in Yardley.

Hall & Tawse Partnership, the social housing specialist, has won a £1m contract from Redland Housing Association, to design and build 25 dwellings in the Avon village of Camerton.

Severn crossing development project

HENRY BARRETT STEEL BUILDINGS, part of the Henry Barrett Group, the steel stockholding, construction and industrial fasteners group, has won a £400,000 order for two purpose-made casting sheds to be built at either end of the new second Severn crossing.

The client is Laing GTM, a joint venture company of John Laing Construction and GTM Europe.

The contract comprises a deck unit casting and pier segment casting shed on the Avon side of the bridge, and a deck unit casting shed on the Gwent side. Both buildings will be more than 20 metres high and are designed to provide facilities to cast the key structural concrete elements for the new bridge.

The sheds are expected on site in July and will be dismantled in 1996.

Developing property in Derby

The Prison Service has awarded the contract for its new £72.5m headquarters building at St Mary's Wharf, Derby.

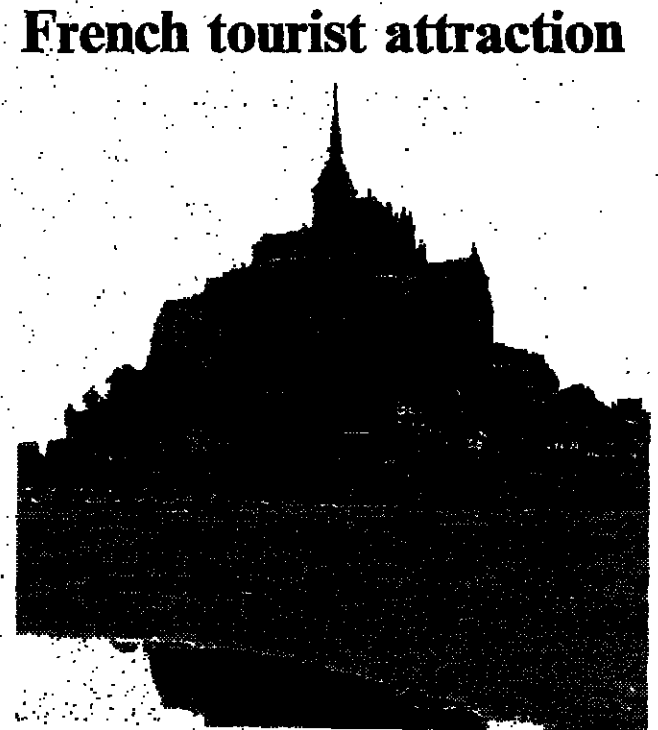
The development contract is with Hyperion Properties, the property arm of NFC, formerly the National Freight Corporation. Some 1,900 staff will work in the new building when it is finished in spring 1995 and it is planned that around 800 people will be recruited locally.

The move will bring together all the staff of the Prison Service Headquarters.

Oil platform

Saga Petroleum has awarded **AKER CONTRACTING** the maintenance contract for the newly-installed Snorre platform. The value of the contract is between NKr20-30m (£1.75m plus) and it will provide work for around 40 people.

French tourist attraction



A view of the isle of Mont-Saint Michel in Brittany

A major clean up programme is to be undertaken at the bay surrounding Mont-Saint Michel because it has been severely polluted by untreated waste.

Roughly 1.5m visitors a year come to Mont-Saint Michel, a rocky isle topped by a Benedictine abbey and connected to the mainland by a causeway. Despite the multitude of visitors, hotels and restaurants on the isle have dumped untreated waste water into the bay.

Mr Pierre-Frederic Teniere-Buchot, a regional water official, said the cleanup plan would cost FFr20m (£2.03m) and would establish a waste treatment system within two years. He also forecast that the cost of water was likely to increase by 180 per cent.

The project will entail the temporary removal of the cobblestones paving the isle's narrow main street. The bay, already a subject of environmental concern, has been shrinking in size because of the encroachment of silt.

Welsh teaching facility

Llanelli and Cardiff-based **MOWLEM SOUTH WALES**, part of the south west division of John Mowlem Construction, has won £8m worth of new contracts.

The largest, at £1.6m, for Mid Glamorgan County Council, is for a replacement teaching block at St Ilan Comprehensive School in Caerphilly, while South Glamorgan County Council has just awarded Mowlem South Wales a £1.5m contract for a medical centre at the University Hospital of Wales, Cardiff.

Refurbishment schemes currently underway include external and internal repairs to Beech House, Whitchurch for Cardiff City Council in a contract worth £1.5m.

At Heron House in Cardiff external repairs to a reinforced concrete and brickwork office block are being carried out for the Unilever Superannuation Fund.

Other contracts include the £600,000 refurbishment and provision of a flytower at Carmarthen's Lyric Theatre for Carmarthen District Council; the building of 18 flats and a doctor's surgery for Swansea Housing Association (£575,000); a factory at Aberystwyth for Rachel's Dairies (£400,000) and for Monsanto at Newport, heavy plant, foundations and roadways are being built for a new processing plant in a contract worth £338,000.

Barratt busy in Scotland

BARRATT CONSTRUCTION - the Scottish-based construction arm of Barratt Developments - has been awarded new contracts worth in excess of £5m.

In Edinburgh, work will begin shortly on a £2m contract at the former Scottish & Newcastle Maltings on Slateford Road for its housebuilding sister company, Barratt Scotland. In addition to building a six-storey block of 36 apartments, Barratt Construction will carry out the demolition and facade retention of the two Victorian B-listed maltings buildings, where a further 114 new flats are planned.

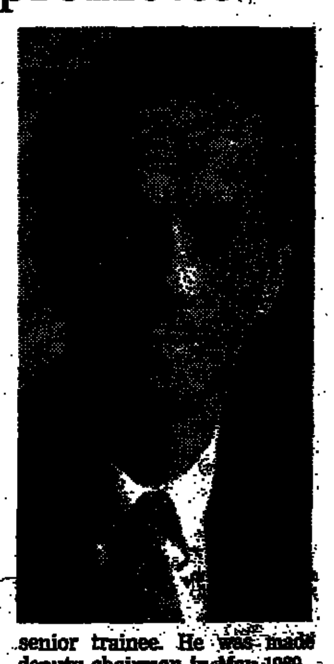
Work has already begun on a £1.6m design and build contract in Dundee for rented housing specialist Quality Street, constructing a range of 42 apartments in Abercorn Street.

In the North East, the company has secured new business worth more than £1.5m, including a development of 27 flats for Langstane Housing Association at Great Northern Road, Aberdeen.

Additional projects scheduled to begin shortly include the fitting out of offices in Albyn Place for Coopers & Lybrand Deloitte, and a new residence for private clients at Birchbank, near Kemnay.

PEOPLE

John Lewis promotes



The John Lewis Partnership is to have a new chairman from February 1 1993, only the fifth since the retailing company was established in 1864.

Deputy chairman **Stuart Hampson**, 45, will take over from Peter Lewis, who is retiring then, at 63 years old.

Because of the particular nature of John Lewis's constitution, the chairman potentially wields considerable power. There are three effective authorities of the company: the chairman of the trust company (hence the title 'partnership'), created in 1929, which manages the share capital on behalf of permanently employed staff, or partners; the central council, representing all levels of the company; and the 12 central board directors.

By taking over as chairman, Hampson heads both the trust company and the central board. He will inherit an absolute veto over policy decisions and will appoint all senior management figures.

Hampson was educated at the Royal Masonic school in Bushey, Hertfordshire, going on to, first, Wilbraham Academy in Massachusetts and thence to St John's, Oxford to study modern languages. He joined the UK Board of Trade in 1969, and in 1978 was appointed principal private secretary to Roy Hattersley, then secretary of state for prices and consumer protection.

Hampson continued in the civil service until 1982, when he joined John Lewis as a senior trainee. He was made deputy chairman in May 1989.

He clearly feels the weight of history on his shoulders. "Appointment as the fifth head of a 128-year-old business is bound to instil a sense of history and tradition, but the Partnership's system of democratic ownership, and its distinctive trading policies, are as relevant to the competitive conditions of the 1990's and the next century as they were in the 1930's" he says, refusing to elaborate until he takes over.

Hampson is the second chairman drawn from outside the Lewis family. Sir Bernard Miller was chairman between 1955-1972.

Fresh wings for Pegasus

PEGASUS GROUP, the USM-listed accounting software specialist, has installed **Jonathan Hubbard-Ford** as the new chief executive in succession to Derek Moon.

Hubbard-Ford, 49, who comes from information technology consultants Butler Cox, where he had been group finance director, says a high priority will be to "look very carefully at the product range and strategy". One area he highlights where Pegasus has struggled is in open systems products. He will also hope to improve distribution channels.

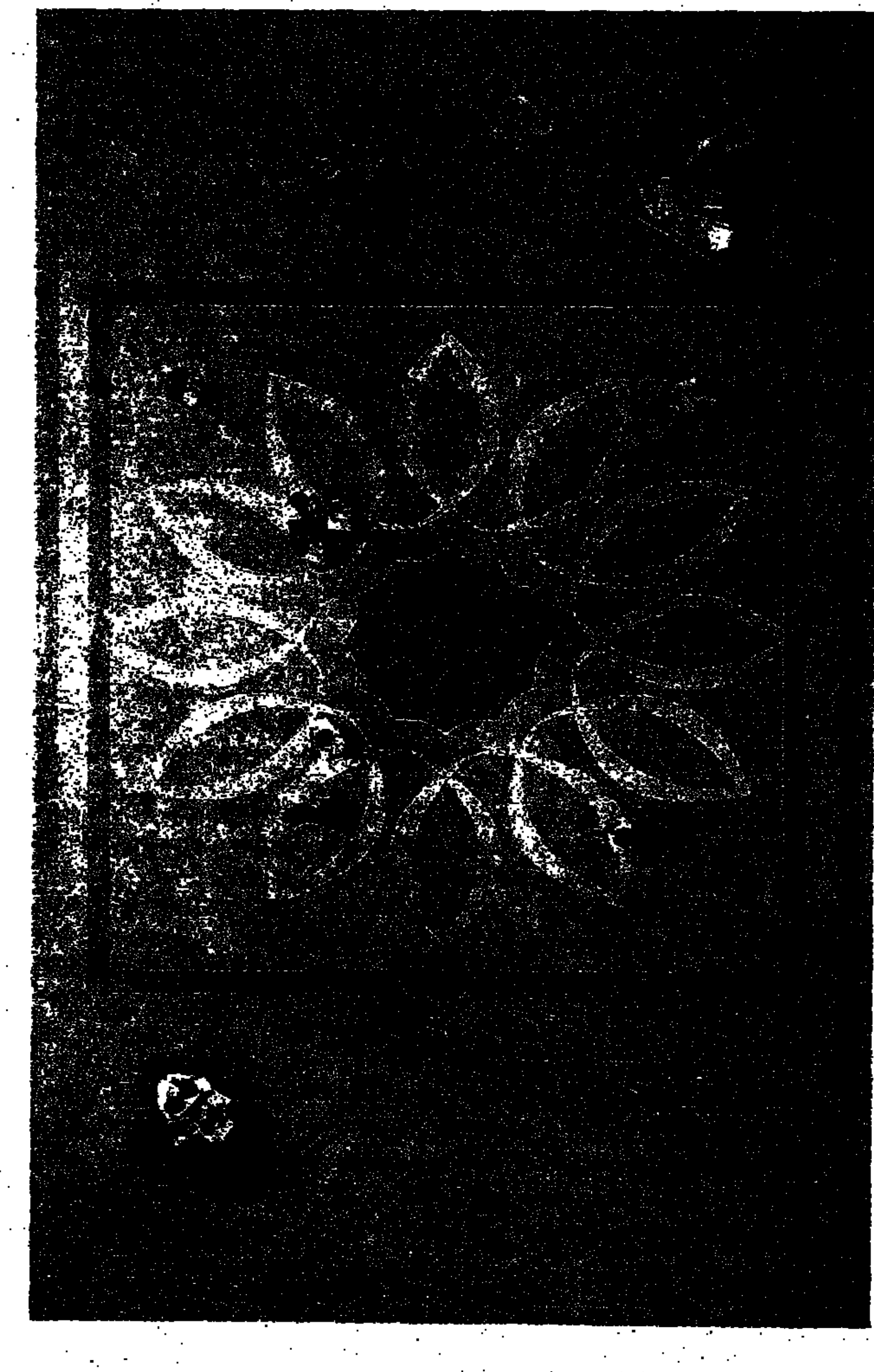
Before returning to the UK in 1985, Hubbard-Ford had spent 11 years in Hong Kong with Hutchison Whampoa, latterly as chief operating officer.

Meanwhile, the new boss claims to be philosophical about the bid speculation that has periodically surrounded Pegasus. "If you operate a public company you are constantly aware you will be looked over" he says, adding that he is "fully prepared" if anyone should display interest.

Moon, 62, is now non-executive chairman.

Bodies Politic

- **Richard Power**, Forte's director of corporate communications, has been appointed a director of the LONDON TOURIST BOARD.
- **Peter Hulmes**, md of Alfred McAlpine Construction, is the new chairman of the Building Employers' Confederation NATIONAL CONTRACTORS' GROUP.
- **Leyland Pitt**, previously associate professor of marketing at the Graduate School of Business at the University of Cape Town, has been appointed professor of management studies at HENLEY MANAGEMENT COLLEGE.
- **Dermot Smurfit**, chief executive of Smurfit UK, has been elected president of the BRITISH PAPER AND BOARD INDUSTRY FEDERATION.
- **Richard Winfrey**, deputy chairman of EMAP, is the new president of the NEWSPAPER SOCIETY.
- **Ron Young**, a director of Lombard North Central, and **Tony Mallin**, md of Hambros Leasing, have become chairman and deputy chairman, respectively, of the FINANCE & LEASING ASSOCIATION.
- **Sir David Orr**, chairman of Inchcape, has been installed as the Chancellor of Queen's University, Belfast.
- **Brian Holdstock**, md of Newmark Precision Metal Finishes, has been co-opted on to a working group reporting to a technical committee of precious metals of the European Committee for Standardisation.
- **Neville Lee**, chairman of the Leaders group of companies, has been appointed chairman of the ASSOCIATION OF RESIDENTIAL LETTING AGENTS.



THE WEEK AHEAD

Figures may confirm US recovery but cast doubt on German growth

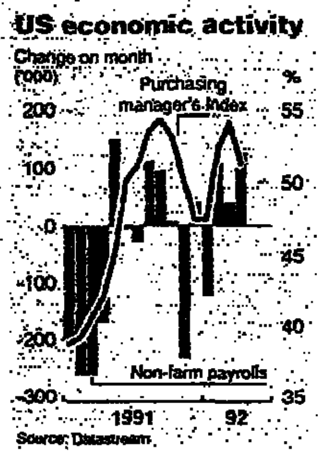
A FLURRY of statistics from the US and Germany this week should point to further recovery in the US economy but may cast some doubt over how strongly Germany is growing.

The closely watched National Association of Purchasing Managers' index, which is released later today, is expected to indicate further gains in US business optimism last month while labour market statistics on Friday should reveal further growth in non-farm payrolls.

Economic data from Germany is likely to be mixed. Thursday's gross national product figures are expected to show robust growth in the first quarter, partly because good weather in the period encouraged construction. Figures for industrial production and orders in April and unemployment in western Germany in May are likely to point to weak economic activity.

In Britain, the Halifax house price index for May will be studied closely for any sign of recovery in the depressed housing market following the Conservative government's election victory.

US economic activity



Source: Datastream

Highlights of the week ahead, with the median of forecasts in brackets from MMS International, the financial information company, include:

Today: US, May National Association of Purchasing Managers' index (53.5 per cent), April personal income (up 0.2 per cent), personal consumption expenditure (up 0.4 per cent), construction spending (up 0.3 per cent), first-quarter balance of payments. Japan, May forex reserves. Australia, April current account (seasonally adjusted A$950m deficit, unadjusted A$680m deficit), building approvals (flat).

Tomorrow: Denmark, referendum on Maastricht Treaty, May forex reserves. US, presidential primaries in Alabama and California, April leading indicators (up 0.3 per cent), new home sales (up 7 per cent). UK, May official reserves (up $100m), April final money supply data. Australia, first-quarter real GDP (up adjusted 1.3 per cent).

Wednesday: US, April factory orders (up 1 per cent), factory shipments, May 21-30 auto sales (6.3m). Germany, parliamentary mediation committee meets on Bundesbank restructuring. Finance minister Theo Waigel meets state prime ministers to discuss fiscal plans. UK, May Halifax house price index. Canada, May foreign reserves, March inventories to shipments ratio.

Thursday: Germany, regular Bundesbank council meeting (no changes expected), first-quarter GNP (up 1.5 per cent on quarter), May unemployment-West (up 16,500 adjusted), April employment-West (up 9,500 adjusted), May unemployment-East (down 25,000 unadjusted), short-time work-East (down 25,000). US, 1992 real capital spending, initial claims for week to May 23 (400,000), money supply for week to May 25. UK, April cyclical indicators (2nd estimate), CSO spring survey of investment intentions of manufacturing and service industries.

Friday: US, May non-farm payrolls (up 103,000), manufacturing payrolls (up 15,000), unemployment rate (7.2 per cent), hourly earnings (up 0.3 per cent), average work-week, April consumer credit (up 0.1bn). Japan, April IMF-basis trade and current account balances, foreign bond investment.

During the week: Germany, April import prices (up 0.1 per cent on month, down 2.4 per cent on year), industrial production (down 0.2 per cent on year), manufacturing output (down 0.4 per cent), orders (flat), trade balance (DM3bn surplus), current account (DM500m deficit). France, April M3 (up 0.3 per cent on month).

Peter Norman

RESULTS DUE

BOOTS, the retail and pharmaceutical company, is expected on Thursday to announce a rise in annual pre-tax profits from £315m to about £360m, excluding property disposals.

Attention will be focused on margins at Boots The Chemist, and on attempts to turnround Halfords and Do-It-All. Earnings are likely to have risen from about 23.45p to more than 25p.

Thames Water, largest of the privatised water companies, may announce an increase in annual pre-tax profit of less than £20m, to £230m or so, next Tuesday, while the dividend increase is expected to be 10 per cent. As its area is one of the worst affected by drought, its views on metering will be of interest. It will also be questioned on progress on its £4bn capital spending programme, including the London ring main, and on the level of contribution from its water treatment division, including acquisitions in the US and the former east Germany.

Siebe, the engineering and controls group, is likely to be questioned closely on North American trading next Wednesday. Optimists are forecasting a modest advance in annual pre-tax profits from £159m to £162m, with the more pessimistic pitching for a decline to £150m. On the top side, earnings edge up from 46.1p to 48p. Both parties agree strong cash generation is likely to have cut the high gearing.

Reed International, the publishing and information group, reports its annual results on Wednesday, with some analysts expecting a small decline compared with last time's pre-tax profits figure of £218.5m. However, Reed is expected to show strong growth once the recession is clearly over.

De La Rue, the UK-based security printer and payment machine maker, is expected to report pre-tax profits of about £80m, up from £58.9m, when it announces annual results on Tuesday. The group which has been successfully turned around by Mr Jeremy Marshall, chief executive and formerly of Hanson, has successfully managed to cut more costs. These profits would represent 32.1p of earnings and analysts expect the dividend to increase from 13.7p to 15p.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Bodycote Intl., The Holiday Inn Crowne Plaza Midland, Peter Street, Manchester, 10.30
Dares Estates, The Reading Moat House, Mill Lane, Sindlesham, Wokingham, Berkshire, 11.00
Eadie Hldgs., 60 Fountain Street, Manchester, 10.00
Headlam, The Country Court Hotel, Birmingham Road, Bromsgrove, Worcestershire, 10.00
Perry, Cambridge House, Bluecoats Avenue, Hertford, 12.00
BOARD MEETINGS:
Finals:
Borthwicks
Bristol Evening Post
Cheam
Chester Waterworks
Cullens Hldgs.
Hicking Pentecost
TR Property Inv. Tst.
Interims:
Faber Prest
Midlands Radio
Westland

■ TOMORROW
COMPANY MEETINGS:
Brammer, Glaziers Hall, Montague Close, London Bridge, S.E., 12.00
Copymore, Copymore Court, 150 Great Cambridge Road, Enfield, Middlesex, 12.00
Gowrings, The Clubhouse, Sandford Springs Golf Club, Wolverton, Hampshire, 12.00
Higgs & Hill, The Howard Hotel, Temple Place, W.C., 11.00
Jourdan (Thomas), 2 Swan Road, South West Indl. Estate, Peterlee, County Durham, 10.00
Pentos, The Cafe Royal, 68 Regent Street, 12.00
Premier Cons. Oilfields, The Insurance Hall, 20 Aldermanbury, E.C., 12.00
Reece, Institute of Directors, 116 Pall Mall, S.W., 10.30
Ropner, 140 Coniscliffe Road, Darlington, 12.30
BOARD MEETINGS:
Finals:
Allied Colloids
Atkins
Dunhill
Leigh Interests
Powell Duffryn
Interims:
Devenish (J. A.)
Eurocopy
Hunterprint
Metro Radio
Perpetual
TSB Bank Channel Islands

■ WEDNESDAY JUNE 3
COMPANY MEETINGS:
Elys (Wimbledon), 22-26 Wimbledon Hill Road, Wimbledon, 6.00
Explaura Hldgs., Barrington House, 59-67 Gresham Street, E.C., 11.30
Havelock Europa, Mossway, Hillend Indl. Park, Dalgety Bay, Fife, 12.00
Kingfisher, The Dorchester, Park Lane, W., 11.00
London & Manchester, Armourers' Hall, 81 Coleman Street, E.C., 12.15
BOARD MEETINGS:
Finals:
CML Microsystems
IWP Intl.
Reed Intl.
Rowlinson Securities
St. James's Place Capital
Siebe
Interims:
Sturge
Turkey Trust

■ THURSDAY JUNE 4
COMPANY MEETINGS:
African Lakes Corp., 24 Gilbert Street, W., 11.30
Anglia Secure Homes, *Connaught House, Stephenson* Road, Severalls Park, Colchester, Essex, 11.00
Beattie (James), 71-78 Victoria Street, Wolverhampton, 2.30
Cluff Resources, The Great Eastern Hotel, Liverpool Street, E.C., 12.00
Cresta Hldgs., The Palace Hotel, Central Promenade, Douglas, Isle of Man, 12.00
Etam, Ironmongers' Hall, Barbican, E.C., 12.00
Glynwed Intl., Headland House, New Coventry Road, Sheldon, Birmingham, 12.00
Hay (Norman), Heathrow Penta Hotel, Bath Road, Hounslow, Middlesex, 12.00
Oriel, 41 Tower Hill, E.C., 10.00
Rathbone Brothers, Goring Hotel, Beeston Place, S.W., 12.00
BOARD MEETINGS:
Finals:
Boots
Dart
600

■ FRIDAY JUNE 5
COMPANY MEETINGS:
Antofagasta Hldgs., Institute of Chartered Accountants, Chartered Accountants' Hall, Moorgate Place, E.C., 11.00
Bentalls, Guildhall, Kingston *upon Thames*, 12.00
City Centre Restaurants, The George Hotel, George Street, Edinburgh, 11.00
Dewhirst, Merchant Taylors Hall, Aldwark, York, 12.00
House of Lerose, Metropole Hotel, National Exhibition *Centre, Birmingham*, 3.00
Inchcape, Le Meridien Hotel, 21 Piccadilly, W., 12.00
Ingham, Berties Banqueting Suite, Brooke Street, Elland, Halifax, 12.00
Martin (Albert) Hldgs., Swallow Hotel, South Normanton, Derbyshire, 12.15
Scottish TV, Cowcaddens, Glasgow, 12.00
Sherco Hldgs., Hilton Intl. Hotel, Neville Street, Leeds, 12.00
BOARD MEETINGS:
Finals:
EFM Income Tst.
Mid Southern Water
Property Partnerships
Somic
Interims:
Carr's Milling Inds.

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Ahmanson (HF) $0.22
Amax $0.20
Amdahl $0.025
American Brands $0.4375
American Gen. $0.52
Andrews Sykes 3.5p
Asarco $0.20
Barclays Bank Prf. Series A $0.52125
Do. B $0.50975
Do. C1 $0.421875
Do. C2 $0.105475
Do. D1 $0.43125
Do. D2 $0.10781
Do. D Units $0.53906
British Aerospace 16.1p
Campari Intl. 9p
Cater Allen 5pc Pf 1.75p
Do. 4.2pc 2nd Pf. 2.1p
Cleveland Place 4¾pc Deb. 1988/93 2.375pc
CNA Gallo 5pc Cm. Pf. R0.05
Cookson Fin. 5⅞pc Gtd. Rd. Cv. Pf. 2004 £58.75
Dares Ests. 10¼pc 1st Mtg. Deb. 2012 £5⅛
Delta 9.8p
ENSERCH $0.20
Enterprise Oil 9.25p
Fleming Claverhouse Inv. 2.5p
Fleming Mercantile Inv. Tst. *4¼pc Perp. Deb. £2.125*
Ford Motor $0.40
Foreign & Colonial 4¼pc Deb. £2.125
Do. 7¼pc Deb. 1989/94 £3.625
General Cons Inv. Tst. 4¼pc A Cm. Pf. 1.4875p
Govett Oriental 5pc Pf. 1.75p
Great Portland Ests. 9½pc Cv. Un. Ln. 2002 £4.75
Greencore 9½pc Ln. 1995 £4.75
Guinness 7.75p
Hambros Inv. Tst. 3½pc Cm. *Pf. £1.225*
Harris (Ph.) 7½pc Cm. Pf. 2.625p
Do. 8% B Cm. Pf. 2.8p
Highland Distilleries 1.45p
Illingworth, *Morris (Saltaire)* 7pc Pf. 1.225p
Inco 1.225p
Ingersoll-Rand $1.75
Intl. Stock Exchange of UK & Rep. *of Ireland* 7¼pc Mtg. Deb. 1990/95 £3.635
Jones (A) 6½pc *Cm. Pf.* 2.275p
Kleinwort Charter Inv. Tst. 4pc Cm. Pf. £2
Law Debenture 4 1/2 % Deb. (Perp) 2.25pc.
Legal & General 12.6p
Lewis (John) Partnership 5pc Cm. Pf. 1.75p
Do. 7½pc Cm. Pf. 2.625p.
Lockheed $0.53
Lombard North Central 6pc Pf. 2.1p
Do. 5pc Cm. 2nd Pf. 1.75p
London County 3pc Cons 1920 *(or after)* £0.75
Do. 2½pc Cons 1920 (or after) £0.625
Low (Wm) 2.7p
Marley 4.25p
MB Caradon 7¼p Pf 3.625p
Monks Inv. Tst. 11pc Deb. 2012 £5.50
Monsanto 5pc Gtd. Ln. 1992/97 £2.50
Do. 6¼pc Gtd. Ln. 1992/97 £3.125
Murray Smaller Markets Tst. 4.1pc Cm. Pf. 2.05p
Ocean Group 9.62p
Ontario & Quebec Railway Capital C$3
Do. 5pc Perm. Deb. £2.50
Reed Intl. 4½pc Cm. Rd. Pf. 1.575p
Do. 5½pc Cm. Rd. Pf. 1.925p
RMC 13.4p
RPH 8pc Cm. Pf. 2.8p
Do. 4pc Cm. Pf. 1.4p
Scottish Agric. Securities 7¼pc Deb. 1990/92 £3.625
Secure Tst. 8.5p
Senior Eng. 1.95p
Stat-Plus 4p
Suffolk Water 7pc Pf. 1996/98 3.5p
TI Group 13.5p
TR Smaller Co's 4½pc Pf. 1.575p
Union Carbide $0.25
Unisys 8pc Deb. 1987/92 £4
Usher-Walker 4p
USLIFE $0.42
War Loan 3½pc £1.75
Whitbread 6¼pc Rd. Deb. *1987/92 £3.125*
Wright (John) 4½pc Cm. Pf. 1.575p

■ TOMORROW
Anglo American Gold R5
Anglo American Inv. Tst. R3.10
Arjo Wiggins Appleton 5.05p
Barry Wehmiller 2.4p
BAT Inds. 12¼pc Ln. 2003/08 £6.125
Enterprise Oil 10¾pc Ln. 2013 £5.375
Goodman Fielder Wattie *A$0.05*
Headlam 1.65p
Higgs & Hill 3p
Homestake Mining $0.05

■ WEDNESDAY JUNE 3
Astra A SKr3.25
Broken Hill Prop. A$0.21
Tate & Lyle Fltg. Rate Nts. 1996 $2573.44
Tilbury Douglas 22.5p

■ THURSDAY JUNE 4
BAT Inds. 11.2p
Chepstow Racecourse 1p
Herring Baker Harris 3.75p
IBM Credit Corp. Fltg. Rate Nts. 1995 $257.34
Intrum Justitia 1.6p
Standard Chartered 13p
Thames TV 5p

■ FRIDAY JUNE 5
Aberforth Split Level Tst. Units 2p
Do. Inc. 2p
Automated Security 2.83p
Boeing $0.25
City Centre Restaurants 1.01p
Epwin 4.5p
Euromoney Publications 6p
Exmoor Dual Inv. Tst 2.6p
Halifax Bldg. Soc. Fixed/Fltg. Rate Nts. 1992 £133.38
Hickson Intl 5.15p
Ingham 2p
Laing (John) *6p*
Do. A 6p
London & Manchester 9 144p
London & Strathclyde Tst 1.5p
Medeva 1p
National Medical Enterprises $0.115
Pearson 12.5p
Prestwick 0 5p
Prudential Currency Fd. Part A Pf 5p
Do B £5
Quarto 3.6375p
Roskel 3p
St. Ives 1.5p
Sharpe & Fisher 2.5p
Smiths Inds 4.1p
Spring Ram 0.202p
Thai-Euro Fd. Part. $0.225
3i Group Gtd. Fltg. Rate Nts. *1997 £273 16*
Tokyo Electric Power 11pc Nts 2001 £110

■ SATURDAY JUNE 6
Cleveland Place 7pc Deb 1988/1993 £3.50
Glynwed Intl. 7½pc Deb. 1989/94 £3 75
Ladbroke 8pc Ln. 1990/1992 £4

■ SUNDAY JUNE 7
P & O Property 7½pc 1st Mtg. Deb. 1997/2002 £3.75

PARLIAMENTARY DIARY

■ TODAY
Commons: Not sitting.
Lords: Debate on safety aspects of ship design and technology. King's Cross Railway Bill (second reading).

■ TUESDAY
Commons: Defence questions, Prime Minister's questions. Finance Bill (second reading), Non-domestic Rating Bill *(remaining stages).*
Lords: Protection of Badgers Bill, Trade Union and Labour Relations (consolidation) Bill, Tribunals and Enquiries Bill, Prisoner and Criminal Proceedings (Scotland) Bill.

■ WEDNESDAY
Commons: Foreign Office questions. European *Communities (Amendment)* Bill (committee stage, 1st day).
Lords: Debate on the committee work of the House.

■ THURSDAY
Commons: Agriculture questions, Prime Minister's questions. European Communities (Amendment) Bill *(committee stage, 2nd* day).
Lords: Prisoners and Criminal Proceedings (Scotland) Bill (committee).

■ FRIDAY
Commons: Debate on tenants rights, opportunities and participation.
Lords: Not sitting.

Kate Button assesses how Sir John Harvey-Jones protégés have fared two years after starring on TV

Toil and trouble

Sir John Harvey-Jones is one of Britain's best-known businessmen. Through the BBC's "Troubleshooter" series, he brought the secrets of management to the living rooms of the British viewing public. Troubleshooter was a great success, attracting the highest audiences ever for a business series.

However, not all the companies involved are complimentary about Sir John's management skills. Some even claim that they were duped by the BBC, being told that the series was a documentary about business and not an investigation into their company.

Two years after broadcast, Sir John's troubleshooting on the six companies involved has had mixed results. The Shropshire District Health Authority and Copella Fruit Juices successfully followed his advice, although they did not stick to his timetable.

Apricot Computers adopted much of the strategy that Sir John outlined, and profits have risen as a result. However, the company claims that the publicity from the programme was the "worst piece of PR we ever encountered". Tri-ang was bought by the French corporation, SuperJouet, in spite of Sir John's efforts, and ceased trading in the UK altogether.

Right from the outset, The Morgan Motor Company was resistant to Sir John's advice. Two years on the company is flourishing, despite having ignored all the Troubleshooter's recommendations.

In March 1989, when Sir John first visited the Malvern-based company, the waiting period for a Morgan car was over 10 years and the factory produced just nine cars a week. Turnover and profit plateaued in 1984, but Peter and Charles Morgan, father and son partners in the family business, were secure in the strong demand for their product. They showed a great reluctance to increase production by any means that might spoil the cachet attached to Britain's only hand-made motor-car.

The Morgans maintained a low selling price, a tradition that promoted Morgan as an affordable luxury. They were, however, aware of the need to increase profit to allow for future investment. In an effort to preserve the car's prestige, their strategy was to make a small increase in production of a car a week.

Sir John's solution was more radical. His suggested almost doubling output, producing an extra 300 cars a year, slicing the waiting list in half, and increasing the price of the car. "He looked at Morgan from an accountant's point of view," says Charles Morgan, "Sir John failed to take into account the fact that Morgan wants to be here in 100 years' time." It seems that Sir John was intent on squeezing the company into a mould abhorent to its owners.

The Morgans continued on their original course, despite Sir John's warning that the Morgan Motor Company would disappear down a black hole of increasing labour and material costs.

Three years later, despite a decline in the classic car market, the Morgan is up and running. The company has increased its profits from £488,000 in 1989 to £910,000 last year, a performance which has made the Morgans damning of Sir John's troubleshooting skills.

"He has his own inimitable style," says Charles Morgan, "whether that is suited to British business I do not know. He's certainly not the guru that I would turn to in the motor industry." Charles Morgan is currently taking an MBA in business studies at Coventry Polytechnic where he has been learning of management systems more to his liking than those preached by Sir John.

The Morgans deny accusations that they run the Morgan Motor Company as a hobby and claim that the proof of a professionally run business is strong profit and a solid customer base, "We have both," says Charles Morgan.

Sir John enjoyed more success troubleshooting at Churchill Tableware, a ceramics company in Stoke-on-Trent.

The Morgan Motor Company ignored the Troubleshooter's advice

The company, run by the three Roper brothers, made a record profit of 1.5m in 1988, but the following year the domestic tableware division went into serious decline. When Sir John arrived at Churchill, he was faced with the problem of cutting costs while establishing a niche in the domestic tableware market. A catalogue of problems left plenty of room for improvement.

He found that there was a conflict of priorities between the brothers, who concentrated on different aspects of the business, thus confusing the overall strategy. The Ropers were engrossed in the minutiae of the business and failed to lead the company successfully. Sir John advised them to relinquish some responsibility to the frustrated middle management, convinced that they would rise to the challenge.

He also discovered that the newly installed computerised kilns had a voracious appetite for clay. In an effort to meet this demand the factory produced enormous amounts of inexpensive tableware.

Sir John demanded more investment in design, increasing the quality and range of products. He also suggested a higher level of automation to reduce the high wage bill (then 36 per cent of production). He estimated £1m a year could be saved by installing machines that would cut 100 jobs.

According to Michael Roper, this was not economically viable. "We did invest in some machines, but a single machine can cost £50,000 and an employee in Stoke costs £200 a week. You have to weigh it up on the short term and the long term."

Neither do the brothers agree on the point of internal conflict. Stephen Roper says: "With regard to the three of us working together, I don't believe that there ever was a problem. I think that was just the 'Troubleshooter' programme looking for an angle that didn't exist."

Nevertheless, the Ropers have spent more on design and now sell an upmarket range which has successfully established itself in the market. They also took time out of the office for brainstorming sessions on strategy, and have relinquished many of the problem-solving tasks to a grateful management, who indeed showed their true potential.

With pretax profit up to £3m in 1991, the Ropers still turn to Sir John for advice long after the "Troubleshooter" series was broadcast. "Sir John's visit was an extremely positive episode in the life of Churchill. He acted as a catalyst. His visit galvanised more action than we were prepared to take at that stage", says Stephen Roper.

Sir John's degree of success varies, depending on who sits in judgment. He does not claim to be a management consultant nor a business guru, but states his prime objective was to correct some of the anti-business feeling that he is convinced exists in Britain and raise the awareness of the British public in commercial matters. In this respect, he undeniably succeeded.

The great top-down fallacy

Is your company trying to become leaner, faster and more competitive by "empowering" its employees? If so, and the company is British, there is a strong chance that it is going about the process in the wrong way.

First, too many UK companies start the change process from grand abstractions such as "culture" or "better communications", rather than from challenges which people in the front line can understand, such as specific aspects of better customer service.

Second, companies fall for the "top-down" fallacy: the idea that all the necessary changes (new structures, reward mechanisms and so on) should be decided at the top of the company, and then "cascaded" down the organisation.

Instead, a "top-bottom-middle" approach is far more effective, in which the initiative for changing all sorts of smaller-scale company practices is handed directly to local teams in the places where the issues manifest themselves. As these local initiatives begin to bite, middle managers then need help in dealing with them, and in learning how to encourage rather than frustrate further efforts.

Third, too many companies attempt to spread the learning created through these local initiatives by trying to draw it up to the top and push it down again. Instead, they should promote learning across the organisation.

Fourth, changes in the company's infrastructure - its formal organisation, pay mechanisms, budgeting systems and so on - should be left until after the other steps. Most British companies try to change such structures first.

These four tips form the essence of a short monograph on "building the empowered organisation", just published by Kinsley Lord, a London-based consultancy specialising in the management of change.

Though primarily a promotional tool, the booklet is of wider value for the challenges it throws at UK management. Contrary to sceptics' claims, it insists that empowerment is possible in Britain. But it has a sting in its tail: "The question for British chief executives is whether they have the conviction, the will and the ability to lead their companies in this way".

Christopher Lorenz

Secret confessions of a secretary

Secretaries resent their bosses; bosses treat their secretaries as mindless typing machines. The relationship in Britain is famously poor: the latest survey by the Industrial Society showed that bosses do not like secretaries who stand up for themselves, show confidence or have a sense of humour.

In defiance of this image, a leading City figure and his loyal, long-serving secretary recently took to the stage at a conference in London to prove just how perfect the relationship could be.

George Mallinckrodt, executive chairman of Schroders, the merchant bank, and Janice Nowak described to a couple of hundred well-groomed top secretaries how to make the "partnership" work.

According to Mallinckrodt, the secretary's main job is to organise him. To do this she needs to be a skilful diplomat, capable of deciding which of the "900 prima donas" within the company he has time to see. She must also play the ambassadress, speak many foreign languages, know when Ramadan is, and be able to recognise voices on the phone she has only heard once before. She must have a photographic memory, anticipate all his needs, and remind him to write thank-you letters.

Nowak, an articulate graduate in languages seemed to take this demanding job in her stride. The skills she found necessary to accomplish the task were:

- Understanding. "You must understand the aims of the person and how they work" she warned. "If he says ten minutes, but you know it will take three quarters of an hour, plan for that, but don't let him know".
- Communication. This is essential: "He must tell you what is going on, where and why." The communication must work both ways.
- Anticipation. If he his going on a trip, make sure he has the papers he is likely to need when he gets there.
- Memory. "If you can't remember something said to you three to six months ago, you'll look silly".
- Admit fallibility. "If you have made a mistake or forgotten something, admit it at once."

The lessons seemed lost on the audience. It would appear that this vision of give and take, with a boss who loves to be organised, and a happy, fulfilled secretary is not the norm.

The other secretaries attending the London conference entitled "Successful Partnership with the Boss", organised by IIR conference group, seemed concerned by more mundane affairs. Their bosses would not surrender their dairies, they complained, and got furious every time they were double booked. Some secretaries said that word processors had given them even more work to do: bosses insisted that letters and memos be changed a dozen times before sending them out. Others who worked for two bosses found that each time they did something for one of them, the other sulked.

The main complaint from the high-flyers was that they were expected to work longer and longer hours, had more tasks delegated to them, but felt forever excluded from the management team.

Lucy Kellaway

COMPANY NOTICES

LEGAL NOTICES

Advertisement of creditors' meeting under Section 48(2) of the Insolvency act 1986
Company No 1588538
Registered in England and Wales
DJ CONSTRUCTION SERVICES LIMITED
NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at: Melrose House, 42 Dingwall Road, Croydon, Surrey CR0 2NE, on 15 June 1992 at 11:00 am for the purpose of having laid before it a copy of the report prepared by the Administrative Receiver(s) under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.
Creditors are only entitled to vote if:
(a) they have delivered to me at the address shown above, no later than noon 12 June 1992, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rule 1986; and
(b) there has been lodged with me any proxy which the creditor intends to be used on his or her behalf.
Please note that the original proxy, signed by or behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.
Signed: N J Vooght, Joint Administrative Receivers.
Dated: 28 May 1992

NOTICE TO CREDITORS TO SEND CLAIMS
IN THE MATTER OF THE INSOLVENCY ACT 1986
and IN THE MATTER OF
DE LAURENCE (UK) LIMITED
NOTICE IS HEREBY GIVEN that the Creditors of the above named Company are required on or before the 30th day of August 1992, to send their names and addresses and the particulars of their debts or claims and the names and addresses of their Solicitors, if any, to N J Vooght ACA of CORK GULLY, Melrose House, 42 Dingwall Road, Croydon, Surrey CR0 2NE, the Liquidator of the said Company and, if so required by notice in writing from the said Liquidator, or by their Solicitors, or personally, to come in and prove their said debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.
DATED this 26th day of May 1992
N J Vooght
Liquidator

PERRYMAN MOTOR FACTORS (HARROW) LIMITED
PERRYMAN MOTOR FACTORS (GREENFORD) LIMITED
(Both in Administrative Receivership)
NOTICE IS HEREBY GIVEN pursuant to Section 48(2) of the Insolvency Act 1986, that a Meeting of the Unsecured Creditors of the above-named companies will be held at the offices of Robson Rhodes, 186 City Road, London EC1V 2NU, on the 11th June 1992 at 10.30 am. for the purpose of having laid before it a copy of the said Act. The meeting may, if it thinks fit, establish creditors' committees to exercise the functions conferred on them, by or under the Act.
Creditors are only entitled to vote if
(a) they have delivered to us at the address shown above, no later than 12.00 hours on the business day before the meeting written details of the debts they claim to be due, and the claim has been duly admitted under the provisions of the Insolvency Rules 1986 and
(b) there had been lodged with us any proxy which the creditor intends to use on his behalf.
Dated this 18th day of May, 1992
I Jacob and W H. Cooper. Joint Administrative Receivers.

MEETING OF CREDITORS
Pursuant to Sections 98, 99, 100 and 101 of the Insolvency Act 1986
BAYDON PHOTOGRAPHIC LABORATORIES LTD
NOTICE IS HEREBY GIVEN pursuant to Section 98 of The Insolvency Act 1986, that a meeting of the creditors of the above-named Company will be held at Westminster Chamber of Commerce, 177 Regent Street, London W1R 8DJ, on 12th June 1992 at 12.00 noon for the purposes provided for in Section 99 et seq.
A list of names and addresses of the above Company's Creditors can be inspected at the offices of [illegible], 45 [illegible] Street, London W1R 9FB, between the hours of 10.00 am and 4.00 pm on the two business days preceding the Meeting of Creditors.
Dated this 22nd May 1992
Derek Francis [illegible], Director

THE INSOLVENCY ACT 1986
IN THE BOURNEMOUTH COUNTY COURT
IN BANKRUPTCY NO: 76 OF 1992
RE: JAMES ARTHUR DUNNETT
Civil Servant/Restaurateur of 162 Wimborne Road, Poole lately carrying on business as Flankerellis at 4 West Street, Wimborne, Dorset as a restaurant.
I, Nigel John Halls of Cork Gully, Lennox House, Beaufort Buildings, Spa Road, Gloucester GL1 1XD, HEREBY GIVE NOTICE that I have been appointed and certificated by the Department of Trade as Trustee in the above matter.
All persons having in their possession any of the effects of the Estate must deliver them to me and all debts due to the estate must be paid to me.
Creditors who have not proved their debts must forward their Proof of Debt to me.
N J Halls
Trustee

AXENDA LIMITED
NOTICE IS HEREBY GIVEN, pursuant to section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named Company will be held at: Coopers & Lybrand Deloitte, 75/77 Colmore Row, Birmingham on 15 June 1992 at 11.00 am for the purposes mentioned in sections 99 to 101 of the said Act. A list of the names and addresses of the Company's creditors may be inspected free of charge at: 43 Temple Row, Birmingham B2 5JT on 11th June 1992 and 12th June 1992
DATED 22 May 1992
By order of the Board
G Thompson Director

CERTIFICATE OF APPOINTMENT OF LIQUIDATOR BY MEETING
DE LAURENCE LIMITED
This is to certify that a meeting of the creditors of the above-named Company was held on 18 March 1992. Nigel Vooght of Cork Gully, Melrose House, 42 Dingwall Road, Croydon, Surrey CR0 2NE having provided a written statement that he is qualified to act as an insolvency practitioner in relation to the above-named Company under the provisions of the Insolvency Act 1986 and that he consents so to act, was appointed Liquidator of the Company.
DATED 18 May 1992
Signed Michelle Sipich – Chairman

THE INSOLVENCY ACT 1986
IN THE MATTER OF
CHAMBEREL LIMITED
Nature of Business: Contract Management.
Administration Order made 18 May 1992.
M J Moore (5562) and D J Stokes (2682) Joint Administrators

NOTICE OF APPOINTMENT OF LIQUIDATOR
BABCOCK PRESTON PLC
Company Number [illegible]
We, [illegible] Jacob and [illegible], give notice that on 3rd April 1992, we were appointed liquidators of Babcock Preston Plc.
Dated 1st May, 1992
[illegible] Jacob and [illegible]
Robson Rhodes, Bryanston Court, Selden Hill, Hemel Hempstead, Herts. HP2 4TN

CONTRACTS AND TENDERS

Architecture/Colin Amery

Glittering history in Portman Square

Patronage is a thing to celebrate and the flags are up in London's Portman Square to mark 20 years of remarkable achievement of London's Heinz Gallery. It was in May 1972 that the Queen opened the Heinz Gallery of the Royal Institute of British Architects. This generous gift to England from Mr and Mrs Henry J. Heinz II has been responsible for the rejuvenation of interest in architectural history, drawings and models in a way that has been quite extraordinary.

Brilliant curatorship and the encouragement of young architectural historians have kept the Heinz at the forefront of both knowledge and exhibitions. It is only the visible tip of the iceberg of one of the world's richest collections of architectural drawings.

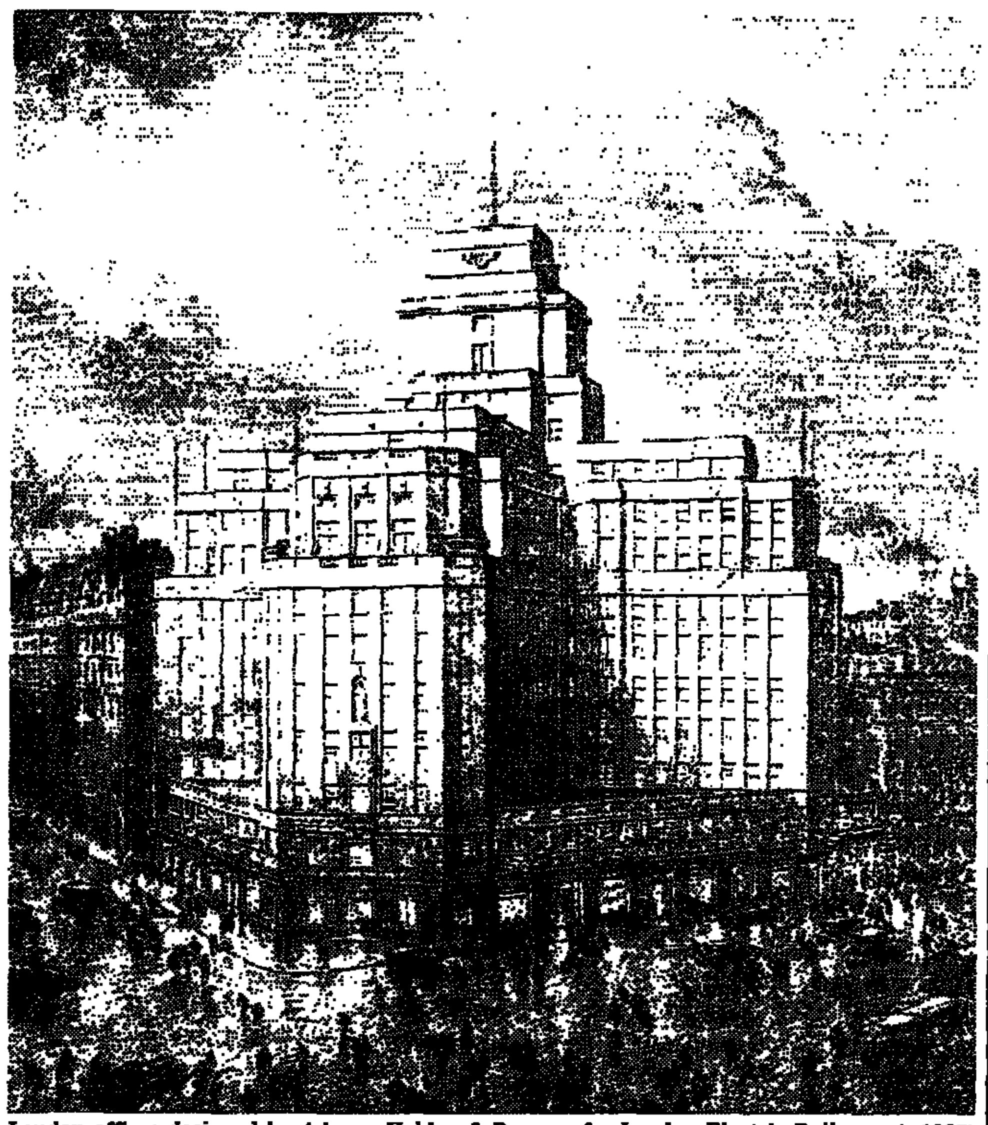
To celebrate its twentieth birthday the Heinz gallery is showing a miscellany of recent acquisitions in a lively and enthralling display. It is a pleasure to enter the darkened room that Alan Irvine designed for the Heinz Gallery – there are two reasons. First it is like going into a richly stocked and glittering shop of architectural drawings and models – sadly none of them are for sale. Second, the gallery itself, which normally plays a subservient role to the collection, can now be seen to have been a very successful, elegant and calm setting for a diversity of exhibition displays. When Alan Irvine, of the architects Buzas and Irvine, designed it he was much influenced by the work of the Italian architect Carlo Scarpa. I think it is that sense of Italian style that has given the Heinz a lasting elegance – something that is quite rare in London galleries.

The current exhibition is an enjoyable miscellany that reveals the discernment which has always marked the acquisition policy of the RIBA Drawings Collection. It is a catholic policy that wisely takes an inclusive historian's view and tries, perhaps not entirely consciously, to avoid the divisive polemics which have polarised the recent architectural debate. Modern architects will have their place in history and it is right that stylistic considerations should sometimes take a back seat. The quality of the recent acquisitions remains remarkably high despite the virtual non-existence of any RIBA purchasing budget. The collection has always been fortunate in its donors and the long tenure of the first curator, Mr John Harris, certainly brought about a complete change in the value of architectural drawings, both aesthetically and financially.

Rich gifts continue to enhance the collection and the donation of some 150 drawings by Joseph Bonomi (1739-1808), who was invited to England by the Adam brothers, is one of the most generous recent examples. It is possible to see in the exhibition his drawings for the great house outside Glasgow, Roseneath, now sadly demolished. Another eighteenth century practitioner who has been added to the collection is Giacomo Leoni (c.1686-1746) in the form of an album of drawings for a London house in Arlington Street. His importance as the publisher of the first edition of Palladio's "Works" cannot be underestimated.

I enjoyed seeing the lovely drawings for the grotto at Oatlands by Stephen Wright and the drawing by Isaac Ware (who died in 1766) of an unexecuted design for Westminster Bridge. The design model by C.R. Cockerell (1788-1863) of Langton House in Dorset is a poignant reminder of another great house that has been sadly demolished. George Gilbert Scott is well represented in the collection and the addition of the drawings for Kelham Hall are both important and interesting examples of his domestic work. The nineteenth century was a rich period for presentation drawings and a dense output of material from the leading architects has posed major cataloguing problems for the collection. Models too can impose storage problems but they are important and much enjoyed by the public. How sad, for example, that all that remains of the City of London's glorious cast-iron Coal Exchange is the architect's model.

The twentieth century is almost over and the collection and this exhibition shows both the strengths and weaknesses of the period. Lutyens's sketchbook for Munstead Wood, on long-term loan from the Lutyens family, is an enticing hint of the development that was to come of his early twentieth century country houses. Sketches so often reveal more than the finished drawings and this particular sketch book has a freshness and humour and cosiness that is enchanting.



London offices designed by Adams, Holden & Pearson for London Electric Railways (c.1927)

Cosy is not a word to be applied to the work of Erno Goldfinger – the refugee who brought some of the Bauhaus tradition to England and left behind in London the Trellick Tower in North Kensington (where the architect lived for two weeks to show how wonderful life was in a tower block as long as you could retreat to Hampstead) and London's Elephant and Castle development for the London County Council. The work of Tecton is shown in the exhibition by their drawings that showed how prefabricated houses could be treated with a variety of facades – an exercise carried out for Peterlee New Town in 1949. Patrick Gwynne shines out as an interesting and neglected modern architect with his Blackheath houses that stand as modest beacons of successful new house design of the 1960s.

It is time to cheer for the Heinz Gallery and all its works and to hope that its original and stimulating approach to architecture and architectural history will long continue in Portman Square.

The current celebratory exhibition continues until June 13 at the Heinz Gallery, 21 Portman Square, London W1.

Sponsorship

Appliance of science

The recession is having one salutary effect on arts sponsors. It is forcing them to evaluate their expenditure more scientifically. In the past companies distributed largess freely, often deriving little in return but a warm glow. Now chief executives, and especially finance directors, want a justification for the budget. What were the objectives of the sponsorship and were they realised?

Unfortunately extensive market research into particular events can cost almost as much as the original sponsorship, but, some companies, such as Lloyds, undertake an assessment as a matter of course. It evaluated its investment in the Age of Chivalry exhibition at the Royal Academy, and constantly measures the impact of its Young Musician of the Year link with the BBC. BMW, which last week supported the opening concert of the Bath Festival, is another company which researches its carefully pinpointed sponsored events.

The latest to buy sponsorship research, through consultancy Millward Brown, which specialises in the field, is NatWest. It made a big commitment this year to Welsh National Opera's *Pelléas et Mélisande*, putting in £250,000 to ensure that the production fully realised the director's ambitions.

NatWest felt it was worthwhile measuring the result. The research suggested that most (72 per cent) of the audience at the performances were aware that NatWest sponsored the opera (way ahead of the 51 per cent norm at a sponsored event), and they approved, appreciating that the production gained from the money. An unexpected finding was that the audience felt NatWest should have banged the drum of its involvement more loudly.

Millward Brown also quizzed NatWest's guests, the 50 or 60 existing or potential customers that it invited to each performance. Here again they welcomed the opportunity to meet their bank managers in a social context, believing it would make doing business easier. NatWest will use the findings to plan future sponsorships. It is aware that such research is necessarily superficial. It cannot examine any increase in brand awareness, or appreciation of NatWest, among the wider public and, anyway, the reaction of the audience, and guests, is likely to be favourable.

Ironically this more business-like approach comes at a time when NatWest is reducing its sponsorship budget in the wake of falling profits. But this way the future lies. ABSA is devising a research facility for interested sponsors. It is well aware that the case for backing the arts has to be made more forcefully and persuasively in the current climate. It also knows that research could show that sponsorship is a waste of time and money. But measuring the effectiveness of sponsorship will inevitably become more important in the cash-straitened future.

★

On June 13, Placido Domingo celebrates his 21st year as a Covent Garden star, singing a title role in *Samson et Dalila* – and at the same time helping Midland Bank to mark its 21st year as a Covent Garden sponsor. The Midland Bank Proms, through which all the seats are removed from the stalls of the Opera House and 700, mainly youthful, enthusiasts sit on the floor for just £9, must be the longest major continuous arts sponsorship in the UK.

It is one that excellently suits both parties. Covent Garden sheds its elitist image for a few days and Midland Bank is seen in a favourable light by its target audience of bright young things. It is an occasion now bathed in history with no plans to break the connection.

The cost for Midland has risen sharply. At the first Prom, on September 28 1972, the audience paid just 50p. The Bank makes up to Covent Garden the difference between a sold-out stalls, with seat prices ranging from £70 up to £150 (for the Domingo night) and the £9 bargain. It will foot a £250,000 bill this year, for as an anniversary celebration, the five nights of opera include not only Domingo, but Maria Ewing in *Salome*, and the first night, next Monday, of a new production of *Der fliegende Holländer*.

All told over 100,000 Prommers have attended 143 opera and ballet performances on the cheap. This year the number will be boosted by the transmission on June 13 of *Samson et Dalila* live on the big screen into the Covent Garden piazza. Not surprisingly, given its financial problems, the Midland has cut its arts sponsorship in the last two years but it is staying faithful to the Garden. As well as the Proms it backs the regional tour by Birmingham Royal Ballet.

★

Next year a British writer will scoop up the £30,000 David Cohen British Literature Prize in recognition of a lifetime's achievement at the typewriter/word processor. This will be the Big One, beating in value the other leading book awards, the Booker, by £10,000, and the NCR, by £5,000. The Arts Council will chip in another £10,000 which goes to a young writer of the winner's choice.

The cheque will be issued by Coutts Bank. Coutts has long literary traditions – Dickens, Browning and Tennyson were customers – and it is supplying the Arts Council and the David Cohen Trust with back up in organising the prize.

Coutts carries out some discreet sponsorship of its own. It organises concerts for its clients at which students of the Royal College of Music play with established soloists. Earlier this year guitarist John Williams performed; later this year it's the turn of percussionist Evelyn Glennie.

★

While more and more sponsors fail to renew their connections, arts sponsorship could still grow this year, thanks to small sponsors dipping their toe in the water.

The latest group to show an interest is hairdressers. Graham Webb International has put up £1,000 to bring the National Youth Jazz Orchestra to the Sevenoaks Festival. Last year a Hexham salon, Sherlock Hair Shop, contributed £1,000 to coax Phoenix Dance Company to the Northumbrian town.

Antony Thorncroft

Theatre

Russia comes to Israel

A curious regathering of the clans is taking place in the Israeli theatre. Of the 400,000 or so Soviet immigrants to the country since the end of 1989, several hundred are actors and some of them, like Irina Selsiniova, the actress who left the Mali Theatre in Leningrad, would be stars the world over, in any language. They want to stay in Israel, learn Hebrew and go on acting.

In general, Israeli reactions to the Russian influx are mixed. The immigrants create short-term problems, such as how they can be housed and fitted into the labour market. In the longer term, however, the influx should be the most dynamic peaceful development in the country for decades. Here are, for the most part, well-educated people who are prepared to work and wish to settle.

So it is in the theatre. The curiosity is that there has been a Russian liaison before.

In the old Hebrew culture, theatre did not exist. The first Hebrew theatre was founded in Moscow in 1917 under the guidance of Stanislavsky and played initially in Russian. It has been a voyage of discovery ever since, and while the word from the professionals is that in the last five years the theatre in Israel has been going through a dull patch, the arrival of the Russians is already producing new waves.

Take just one example. A new company has been formed called the Gesher Theatre (Gesher means bridge). It has been to New York with a production of Tom Stoppard's *Rosencrantz and Guildenstern Are Dead* in a version translated into Russian by Joseph Brodsky. I saw it in a small improvised hall in Tel Aviv. It is electric and one can see immediately why dissident Russians so admired the play. The man who plays Claudius looks as if he has stepped straight out of the old Politburo: Polonius is pure apparatchik – none of the old buffer of English performances; Rosencrantz and Guildenstern are the informers so familiar in a communist society.

Igal Naor as Yehu (right) and Alex Peleg as Zif in 'Yehu' at the Habimah National Theatre

Yet the Gesher Theatre is not stopping there. Its members are busy learning Hebrew several hours a day. Russian, on the other hand, will become the second language of the theatre in Israel.

English is far behind, except in translation. Here again is a curious fact: nearly half of Shakespeare's plays have never been translated into Hebrew. The tragedies go down well – *Hamlet* is for all countries – but the comedies tend to be regarded as artificial and the history plays are irrelevant. None of the Henrys, I was told by Gary Bilu, the principle of the Beit Zvi School of Stage and Cinematic Art, have ever been put into Hebrew. Yet his own school is commissioning and performing Hebrew texts of virtually any modern English play you can find.

We dropped in at a student rehearsal of Charlotte Keatley's *My Mother Said I Never Should*. Bilu said that his school is British-oriented and its principles based on RADA; what he wants to see, however, is practically the entire theatrical canon available in Hebrew.

There is an absence of translations from Spanish. The Greek classics have been translated, but seldom performed. A forthcoming production of *Oedipus* at the Municipal Theatre in Haifa – one of Israel's top three venues – is regarded as important by its director because it will show how different Greek drama was.

Thus the voyage of discovery continues, yet it would be strong to say that the indigenous theatre has gone to sleep. The fashionable view is that since the outbreak of the *intifada* on the west bank in 1987, Israeli dramatists have been practising a kind of self-censorship and have withdrawn from political theatre. That was probably true as the shock of the uprising sank in. Two recent productions, however, suggest a reawakening.

The first is *Ya'ir* by Danny Horowitz at the Haifa Municipal. This is the story of Avraham Stern, the terrorist or freedom fighter who decided it was legitimate to seek an alliance with the Germans in the fight against the British. Stern was killed by the British in 1942 in circumstances that have never been wholly explained.

Horowitz is a left-wing playwright and initially it was thought odd that he should take on such a subject. Stern emerges as rather a romantic figure, which indeed, with his academic background, he was. His widow gradually agreed to co-operate with the play and has been attending performances. As a production it is a trifle static, but it plainly breaks new ground. Horowitz says that he would like to go on to re-examine other parts of recent Israeli history.

That is exactly what happens in *Yehu* at the Habimah National Theatre in Tel Aviv. Gilad Evron's central character is taken from the Book of Kings – Yehu is a tyrant *par excellence* who has 70 members of the royal family beheaded. The theme, however, is unmistakeably modern. It is that power corrupts today, just as it always has. No one seeing *Yehu* could fail to think of Israeli extremism run mad: it is also magnificently performed, notably a chilling mutual suicide scene.

Perhaps the most interesting production is yet to come, and again it is a case of bringing different cultures together. Next year there will be a production of *Romeo and Juliet* by the Jerusalem Wall with the Montagues played by Arabs in Arabic and the Capulets by Israelis in Hebrew. Traditional Islam, like traditional Hebrew, never had much room for theatre, but some of the Arabs are beginning to play a role. A mixture of Arab and Hebrew has already been tried successfully in *Waiting for Godot*. As in the Market Theatre in Johannesburg a few years ago, drama has a healing as well as a disturbing influence.

Malcolm Rutherford

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw 20.15 Opening of the Holland Festival: tonight's performance features the Dutch National Ballet in choreographies by Hans van Manen, plus the Schoenberg Ensemble and other instrumental groups in music by Stockhausen, Nono, Milhaud, Stravinsky and Dallapiccola. Thurs: John Eliot Gardiner conducts Così fan tutte. Fri: Dietrich Fischer-Dieskau sings Schubert. Sat: Edo de Waart conducts concert performance of Schreker's Der Schatzgräber (6718 345)
Muziektheater 19.30 Nikolaus Harnoncourt conducts Alfred Kirchner's production of Don Giovanni. Runs till June 21, next performances on Thurs and Sat. Tomorrow, Wed, Fri and Sun: Nederlands Dans Theater in choreographies by Hans van Manen (6255 455)

BARCELONA

Palau de la Musica 21.00 Alexis Weissenberg is piano soloist in a programme of works by Mozart and Beethoven, with the Chamber Orchestra of the Palau. Fri: choral works by Handel and Mozart (268 1000). Thurs at Centre Cultural Caixa de Terrassa: Warsaw Chamber Opera presents Don Giovanni (886 2100). Sat in Gran Teatre del Liceu: Tannhäuser (412 1466)

BRUSSELS

Palais des Beaux Arts 20.30 Ronald Zollman conducts the Belgian National Orchestra in a concert featuring the six prizewinners in the Queen Elisabeth Competition, devoted this year to singers. Tomorrow: piano recital by Stephen Prutsman. Wed: Lorin Maazel conducts Pittsburgh Symphony Orchestra (507 8200)

COPENHAGEN

Tivoli Koncertsalen 19.30 Signe Haugland plays Mozart's Bassoon Concerto with the Tivoli Symphony Orchestra. Tomorrow: Hans Zender conducts Ensemble InterContemporain in works by Donatoni, Zender, Dallapiccola and Schoenberg. Fri: concert performance of Cavalleria Rusticana (3315 1012)

FRANKFURT

Tonight at the Alter Oper, Christian Mandeal conducts the Frankfurt Opera Orchestra in works by Schubert, Mendelssohn and Schumann, with the Labeque Sisters. Fri: Dmitri Kitaenko conducts works by Gesualdo, Gubaidulina and Haydn (1340 400). The Opernhaus has Aribert Reimann's Troades on Wed and Sat, Carmen on Thurs, Così fan tutte on Fri and William Forsythe's ballet Slingerland on Sun (236061)

GENEVA

Victoria Hall 20.30 Armin Jordan conducts the Orchestre de la Suisse Romande in works by Honegger and Beethoven (311 2511)

THE HAGUE

Danstheater 20.15 Nederlands Dans Theater in four choreographies by Hans van Manen, including world premiere of On the Move, music by Prokofiev. Repeated tomorrow, Wed, Fri and Sun in Amsterdam and Sat in the Hague (360 4930)

LONDON

Covent Garden 19.00 I Puritani with Sumi Jo, Giuseppe Sabbatini and Dmitri Hvorostovsky, also Thurs. Tomorrow and Sat: Salome with Maria Ewing. Wed and Fri: La bohème (071-240 1066). Tomorrow in Coliseum: Madam Butterfly (071-836 3161)
Royal Festival Hall 19.30 Neville Marriner conducts a concert performance of Gilbert and Sullivan's The Yeomen of the Guard, with Thomas Allen, Kurt Streit, Sylvia McNair, Ann Murray and others. Tomorrow: Radu Lupu plays Beethoven. Wed: Libor Pesek conducts Dvořák's Stabat Mater. Thurs: Buchkov conducts the Philharmonia. Fri: choral works by Dvořák and Brahms. Sat: Neeme Järvi conducts the Philharmonia. Sun: Music for Life, festival of music and entertainment for Aids relief (071-928 8800)
Queen Elizabeth Hall 19.45 Richard Stoltzman and friends. Wed: Orchestra of the Age of Enlightenment (071-928 8800). Thurs and Sun at Barbican: Kiri te Kanawa sings Mozart and Richard Strauss (071-638 8891)

MADRID

Vanessa Redgrave stars in The Cherry Orchard this week at Tetrradillo (416 9091). The Auditorio Nacional de Musica has the Montreal Symphony Orchestra conducted by Charles Dutoit tomorrow and Wed, followed on Fri, Sat and Sun by the Spanish National Orchestra conducted by Walter Weller (337 0100). Alfredo Kraus sings in Donizetti's La Favorita at Teatro Lirico La Zarzuela, opening on Thurs (429 8225)

MILAN

Teatro alla Scala 20.00 Dimitri Sitkovetsky, accompanied by Bella Davidovich, plays violin sonatas. Tomorrow, Thurs, Sat: Lady Macbeth of Mtsensk. Wed and Fri: Lucia di Lammermoor. Sun: Riccardo Muti conducts orchestral concert (7200 3744)

MUNICH

Staatsoper 20.00 Wolfgang Sawallisch conducts Bavarian State Orchestra in works by Richard Strauss and Schumann, repeated tomorrow. Wed: Don Pasquale. Thurs and Sun: Cav and Pag. Fri: Die Aegyptische Helena with Gwyneth Jones. Sat: ballets by Balanchine and Kylian (221316). Fri and Sat at Gasteig: Sergiu Celibidache conducts Munich Philharmonic Orchestra. (48098 614)
● Theatre and concert tickets available at Konzertkasse Beck on 4th floor of Beck department store at Marienplatz 11

NEW YORK

DANCE
American Ballet Theatre's production of Sleeping Beauty runs daily till Thurs in the Metropolitan Opera House. Fri, Sat and next Mon: triple bill featuring Agnes De Mille's The Other, Mats Ek's Grass and Ulysses Dove's Serious Pleasures . ABT season runs till June 20 (362 6000). New York City Ballet repertory runs daily except Mon till June 28 in NY State Theater. Mikhail Baryshnikov gives the NY premiere of a new solo work by Mark Morris on June 16 (870 5570)
JAZZ
This week at the Blue Note Jazz Club and Restaurant is singer Vikki Carr: showtimes at 21.00 and 23.30 daily from tomorrow till Sun (475 8592).

VIENNA

MUSIC
Staatsoper 19.00 Die Zauberflöte, also Sun. Tomorrow: Der fliegende Holländer. Wed and Sat: Boris Godunov. Thurs: Il barbiere di Siviglia. Fri: Prokofiev's ballet Romeo and Juliet (51444 2960)

Musikverein 19.30 Peter Keuschnig conducts Ensemble Kontrapunkte in music by Ives, Copland and Milhaud. Fri: Mirella Freni and Nicolai Ghiaurov. (505 8190). Wed and Thurs in Konzerthaus: Okko Kamu conducts Helsinki Philharmonic Orchestra (712 1211)

THEATRE
Günter Krämer directs a Vienna Festival production of Friedericke Roth's new play, Erben und Sterben, at the Messepalast daily till Thurs. Final performance tonight at Ronacher of Slovenian National Theatre production of Hamlet (586 1676)

ZURICH

Opernhaus 20.00 Vienna Burgtheater in a stage recitation of Hofmannsthal's text for Der Rosenkavalier. Tomorrow: Rigoletto. Wed and Sat: La forza del destino. Thurs: Die Zauberflöte. Fri: L'Italiana in Algeri (262 0909)

Tonhalle 19.30 Conton Percussion Ensemble in works by Varèse, Ginastera and Chavez. Thurs: concert of Brazilian music (201 1580). Fri: Maurice André is soloist with Zurich Chamber Orchestra (252 1737)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES

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Monday June 1 1992

The road to Rio

THE EARTH Summit, which gets under way in Rio on Wednesday, could hardly be described as a happy event. The tortuous two-year preparations have exposed a world far from united on the size and even the nature of the environmental threat that faces it. Deep divisions have appeared between the rich and poor countries over who should shoulder responsibility for the damage that has been caused already and over what should be done to prevent more damage in future.

Only a week ago, Mr Carlo Ripa di Meana, the EC Environment Commissioner, decided not to attend, denouncing the gathering as a cocktail party with a pre-arranged outcome, a view which many undoubtedly share.

Such disenchantment is not altogether a bad thing. This cumbersome event, with its 800 page agenda, was never likely to achieve anything of immediate significance. Yet it was in danger of raising false hopes all around the world – among those in the industrialised countries who saw it as the trigger for global environmental action, and among those in developing countries who were hoping for fresh flows of aid.

None of these hopes will be realised; that much is now clear. But this is no reason for questioning the value of holding the summit at all; it means that more realistic yardsticks are needed.

In one sense, Rio has already achieved some success merely by identifying issues and drawing a large number of constituencies into the debate. We may not have the answers, but the questions, at least, are clearer.

Species extinction

Have environmental pressures – for example pollution of the atmosphere and the seas, or the pace of species extinction – advanced from being local problems to matters of global concern? Is the rate at which we are using up our natural resources unsustainable? Has the world's ecology entered a new phase with man's ability to manipulate the environment? If the answer to any of these questions is yes, or just probably, Rio can serve a purpose.

But three things are needed to prevent Rio from being merely a talking shop. The first is rigorous control of the proceedings. Little will be gained if the talks degenerate into finger-pointing or haggling over aid. To be fruitful, this conference must stick to identifying environmental concerns which are common to all participants, and initiating moves to deal with the most urgent. There must also be realism, both about the dangers and the action they call for.

Developing countries

Second is a willingness by all participants to make sacrifices. Most of the world's environmental problems stem from excess. There must be a recognition that the benefits of environmental protection come at a price. This is obviously true for the industrial countries, but even developing countries must play a part.

The third point is that Rio will initiate a process rather than conclude one. It is essential that the politicians who put their names to the Rio conventions be held to the commitments they make, however flimsy. This will require the establishment of some kind of machinery to monitor progress and bring pressure to bear on the laggards. An annual meeting of environmental ministers is one suggestion.

A sense of proportion is essential. Much can still be done by ceasing to pursue policies, such as energy subsidisation, that harm both the economy and the environment. Where conflicts between the two may exist, there is also much uncertainty. Yet it is naive to expect huge changes in social behaviour on the basis of uncertain scientific forecasts for the distant future. Rio could never have been more than a start.

This is not how idealists and environmental zealots see it. They have already written off Rio. Others view it with a mixture of weariness and dread. Doubtless there will be moments over the next 12 days when stalemate and sheer verbiage will clog the mind. But Rio could create a watershed even if this fact does not appear startlingly clear at the closing ceremony on June 14. At one level it should initiate action to deal with specific threats. But at another it should encourage the global consciousness, which will be needed to ease the stresses on the planet's resources.

Paying up for Maxwell victims

MORE THAN six months after Mr Robert Maxwell went missing from his yacht off the Canary Islands, pension scheme members in his business empire are still uncertain as to their future pension prospects. The government has shown little inclination to do more than pass the buck. The official bodies of the normally vociferous pensions lobby have maintained a studied silence. Banks who backed Mr Maxwell on his breakneck expansion in the 1980s persist in clinging, poker-faced, to stolen assets as security for their ill-judged loans. The debate over compensation for present and future pensioners has become bogged down in irrelevant detail.

This relegation of the pensioners' interests to a residual consideration in the winding up of the Maxwell finances is altogether unseemly. For while Mr Maxwell bears primary responsibility, the scandal is also the product of an overwhelming failure of the British system of pension provision. So far the government has offered the Maxwell pensioners no more than the equivalent of the minimum pension under the state scheme. That is a derisory sum, which reflects the failure of successive governments to establish an adequate state pension plan in the 1960s and 1970s. If a third-best scheme was adopted by the last Labour government, it was largely on the basis that anything was better than continuing prevarication. Meantime the occupational pensions sector flourished, *faute de mieux*, with the support of substantial tax breaks.

More generous

A Maxwell-type scandal in Germany, France or even Italy would have been inconceivable precisely because greater security is provided by more generous state pension schemes. That is not to say that it is unreasonable for any government to tilt the balance further in the direction of the private sector. There may well be legitimate reasons, such as the impact of demography on public finances, to do so. But if politicians choose to go down that route, it is incumbent on them to provide a regulatory structure to compensate for the increased risk that legitimate pension expectations will be frustrated. This British politicians have conspicuously failed to do.

The Wilson Committee, Professor Gower's review of investor protection, the City Capital Markets Committee, numerous press commentators – all, over the years, warned of the inadequacy of regulation and the need for legislation to protect pension fund beneficiaries. The response of the Department of Social Security and other interested Whitehall departments was supine. That insouciant attitude was reflected in the 1986 Financial Services Act, which confined itself purely to the narrower aspects of pensions investment management. Pensioners were, in effect, excluded from the compensation schemes set up under the new framework.

Collective responsibility

The regulatory debate now concentrates largely on the question of whether the Department of Trade and Industry was right to grant a licence to London and Bishopsgate International, the Maxwell fund management group, just before the 1986 Act took effect and the extent to which the fund management watchdog IMRO was at fault. These are important matters on which a forthcoming report from the Securities and Investments Board will no doubt throw light. But the real issue is Whitehall's collective responsibility for failing to introduce adequate regulation in the first place.

The government is understandably worried about setting a precedent with the Maxwell pensioners and other victims of theft or fraud. Yet a precedent has already been set at Barlow Clowes. The case of the Maxwell pensioners is invidious by comparison: most were coerced into their funds as a condition of employment.

The government might reasonably twist the arms of the pensions lobby, many of whose leaders opposed regulatory change, for a contribution via whatever form of compensation scheme finally emerges. Conscience money should also be extracted from the banks.

But it is for the government to take the initiative to make good the estimated £400m loss. It should get off the fence and make a firm commitment to compensate these victims of theft and fraud forthwith.

America's sale of the century

Privatisation is gaining momentum in state and city government, says Martin Dickson

There is a tide in world financial and business affairs which normally flows from the western hemisphere to Europe, a little like the Gulf Stream: Americans invent an idea, popularise it, and some time later it washes up in plagiarised form on the shores of Britain, France and Germany.

In an unusual reversal of this phenomenon, the US is slowly warming to privatisation – the sale of state owned businesses to the private sector. It is doing so roughly a decade behind Britain and contemporaneous with the former east European satellites of the Soviet Union and the Third World regimes of Latin America.

To non-Americans, it may seem surprising that the US, the most capitalist economy of all, has any significant assets in public ownership.

Certainly, very little is owned by the Federal Government, apart from the post office, some regional electric power systems, the Amtrak railway and America's air traffic control network.

However, state and city governments own and operate a huge range of businesses in the utility and infrastructure sectors, including highways, bridges, tunnels, seaports, airports, power stations and water plants.

A few of these local governments, citing the successful example of Margaret Thatcher's privatisation drive in Britain, are now beginning to look at ways of selling existing enterprises, mostly to private corporations, but possibly in public share sales as well. They are also trying to get the private sector to finance the construction of new facilities such as toll roads.

This in turn is starting to create opportunities for bankers, financial advisers and corporate investors, be they US companies or European ones with privatisation experience.

The Reason Foundation, a Los Angeles-based think-tank which strongly supports privatisation, reckons that the US has some $226bn of existing state and municipal enterprises which could potentially be spun off.

Privatisation on such a grand scale seems highly unlikely, due to a combination of political, legal and financial hurdles. However, President Bush gave the nascent movement a large nudge forward in April when he signed an executive order which removes some of the biggest financial and bureaucratic barriers to asset sales.

Why the sudden enthusiasm? The Republican White House, which has long paid lip service to privatisation as ideologically desirable, now views it as politically helpful too.

Mr Bush, weighed down with a $360bn federal budget deficit, has very limited scope for fiscal stimuli which would help spur recovery from recession in this presidential election year. The privatisation initiative is part of his re-election campaign effort to streamline or remove government regulations which hold back economic growth.

The small but vocal privatisation lobby argues that there are several powerful, longer-term reasons for selling off assets.

First, this could help alleviate America's serious infrastructure problems. Many of America's roads, bridges, and sewers are in serious decay – a fact underlined by the quarter of a billion gallons of water which flooded central Chicago in April when a tunnel collapsed. But the states and municipal authorities responsible for maintaining them lack the funds to do so.

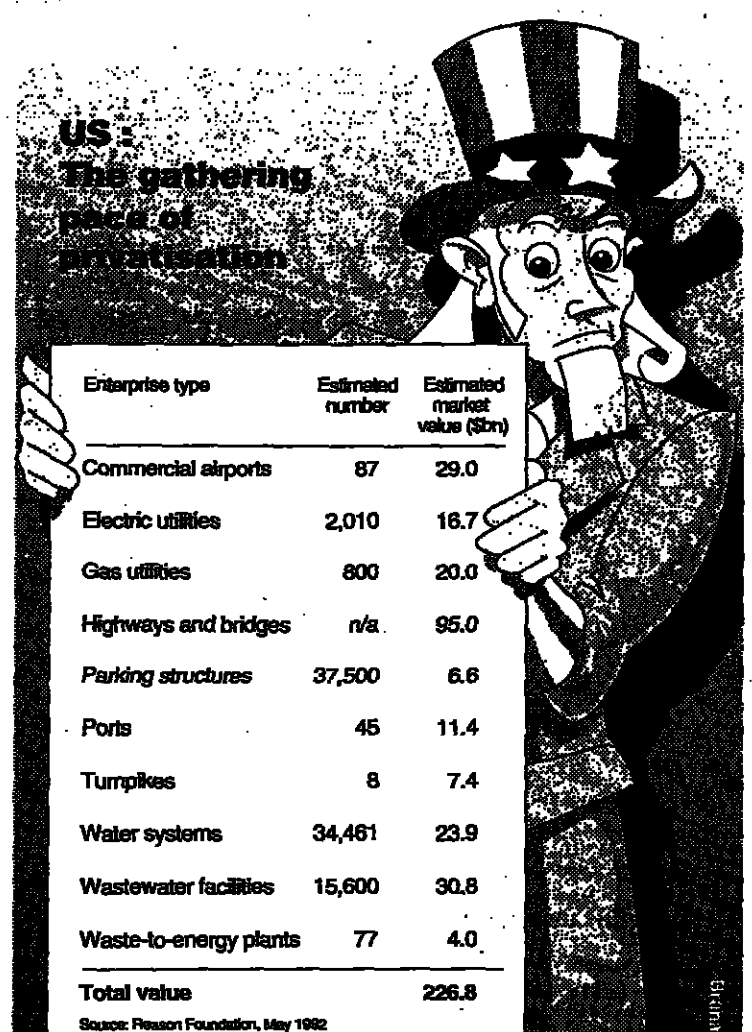
The privatisation lobby argues that private investors would provide the necessary capital if ownership were transferred to them.

The weakness of this argument is that canny investors will want to buy only assets in good condition, leaving local governments nursing those most in need of rehabilitation. Still, the money raised from the disposal of "good" assets could then be used by governments to rehabilitate "bad" ones.

Some of the money raised by privatisation might also be used by local governments to alleviate other serious problems, such as the plight of the predominantly black underclass in the inner cities. This argument is being pressed with particular vigour in the wake of last month's Los Angeles riots.

"It is a crime that state and local governments fiddle with billions of dollars in assets which could be used to rebuild cities – while the cities burn," says Mr John Giraudo, a privatisation expert with the legal firm of Skadden Arps.

The sale of state-owned enterprises is also the logical corollary of a fast-growing movement in the US to make government more efficient by adopting business practices similar to those of the private sector.



Enterprise type	Estimated number	Estimated market value ($bn)
Commercial airports	87	29.0
Electric utilities	2,010	16.7
Gas utilities	800	20.0
Highways and bridges	n/a	95.0
Parking structures	37,500	6.6
Ports	45	11.4
Turnpikes	8	7.4
Water systems	34,461	23.9
Wastewater facilities	15,600	30.8
Waste-to-energy plants	77	4.0
Total value		226.8

Source: Reason Foundation, May 1992

Apostles of the movement include some of the most innovative state governors in the country, both Democratic and Republican: Mr Bill Clinton, the Democratic presidential nominee and Arkansas Governor; Mr William Weld, the Republican who is shaking up Massachusetts; Mr Lawton Chiles, the Democrat who is reshaping Florida's civil service; and Mrs Ann Richards, the Democrat running Texas.

Their bible is Reinventing Government, a book which has gone through seven printings since publication in February and, improbably for such a dry subject, spent eight weeks on the New York Times non-fiction best-seller list.

Its authors, Mr David Osborne and Mr Ted Gaebler, are consultants on public sector efficiency, who believe government in the US must be more "entrepreneurial" or businesslike if it is to overcome decades of accumulated bureaucratic inertia and financial waste.

Their solutions include privatisation; decentralising responsibility to encourage innovation and flexibility among civil servants.

Much of this medicine will appear commonplace to anyone who lived through Britain's privatisation revolution in the 1980s. But the American variant adds in a hefty dose of popular US business theories which emphasise quality standards and customer satisfaction.

Several powerful financial forces have been impelling local governments in this direction: a revolt by taxpayers, tired of financing bureaucratic inefficiency, manifested both in anti-tax referenda and votes against high-tax administrations; President Reagan's cuts in federal aid to state and local administrations during the 1980s; and recession, which has further eroded local governments' revenue base.

State and municipal politicians, desperate to balance their budgets, have been pursuing two main avenues of reform. First, they have been shaking up their existing civil service structures and control systems to improve performance.

Second, they have been contracting out services previously performed by the government – such as running prisons and collecting garbage – to private sector companies, a process which is also often termed "privatisation".

So far there is still far more talk of reform than action. Political inertia or fear of opposition from public sector unions remains widespread, and relatively few politicians have begun seriously considering the outright sale of large assets.

But the cutting edge of the reform movement can be seen in Massachusetts, where the Republican Mr Weld took over as governor at the start of last year in a wave of revulsion by voters against the high tax regime of his predecessor, Mr Michael Dukakis, the 1988 Democratic presidential nominee.

Mr Weld's first budget slashed state spending, while his second proposes modest cuts in taxes at a time when most states have been raising theirs to cope with revenue shortfalls.

He has launched a war on bureaucratic red tape and begun contracting out government services, including parts of the hospital system, prisoners' healthcare, some roads' maintenance and parts of the vehicle registration system.

Mr Weld has also floated the idea of privatising two of the state's largest infrastructure assets – Boston's Logan airport, the ninth busiest in the US, and the Massachusetts Turnpike, a 135-mile toll road. Studies have suggested that both could be sold – the airport for nearly $800m and the road for about $950m – but neither disposal is imminent, partly for local political reasons and partly because of the complexity of such a move.

In Massachusetts, as elsewhere, one factor holding back privatisation is the sheer fragmentation of the government machine and the large number of interested parties involved in decision-making. "In the US," says Skadden Arp's Mr Giraudo, "privatisation requires achieving a much larger political consensus than in other nations."

For example, an attempt by Lockheed, the aerospace company, to take a long-term lease on the regional airport at Albany, in New York state, became bogged down last year in a lengthy debate with the Federal Aviation Administration, the federal agency responsible for the industry.

Until now, another difficulty holding back privatisation has been a requirement that any administration selling an asset pay back any grants the enterprise has received from the federal government.

President Bush's recent order clears away some of the biggest of these hurdles, for it allows a privatising administration to keep the bulk of such grants and also orders federal agencies – such as the FAA – to co-operate fully in privatisation efforts.

Even so, obstacles will remain. Take airports, for example. This sector is closest to producing a big candidate for disposal, with Los Angeles completing a study for the privatisation of its international airport and Maryland looking at leasing out Baltimore/Washington.

America's airlines, concerned that this will mean much higher landing fees, have begun lobbying against privatisation, and some analysts believe no sale is likely until their fears are allayed, possibly by granting them a stake in a privatised airport's profits.

The privatisation movement, however, extends beyond the sale of existing assets to entirely new projects. For example, a highways act passed by congress last November should encourage the building of new toll roads by private investors. The federal government heavily subsidises road construction, but until now it has not allowed most roads built by states with federal aid to charge tolls. The new legislation retains this ban on America's main interstate highways, but it allows states to use federal money for non-interstate toll roads – and for the first time it specifically allows them to use these funds to support private sector investment.

Even before the new legislation, plans were well advanced for the construction of five unsubsidised private toll roads – four of them in California and one in Virginia.

These new projects create opportunities beyond America's borders. European commercial and investment banks have much more experience of financing such ventures – be it providing loans or advising on debt and equity offerings.

S.G. Warburg, the British merchant bank which arranged public share offerings in both the Channel tunnel and the new Disney theme park in France, has, for example, been examining the possibilities of advising on US privatisations.

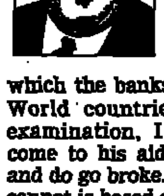
However, Warburg's Mr David Freud points out that the US project financing market has substantial differences from Europe. He cites, for example, "horrific" legal liability issues which could complicate US equity offerings.

In this, as in so many other aspects of privatisation, it seems the US may still have something to learn from Europe.

* *Reinventing Government. David Osborne and Ted Gaebler. Addison Wesley $22.95.*

Samuel Brittan

Countries don't go broke



The former chairman of Citibank, Walter Wriston, was much scoffed at for saying: "Countries cannot go broke." So far as he was defending the massive amounts of credit which the banks extended to Third World countries without proper examination, I have no wish to come to his aid. Governments can and do go broke. The view that they cannot is based on the false supposition that they can and do always raise in taxes what they need to service their debts.

Governments are, however, not countries. If the former Citibank chairman's remark is taken literally to apply to countries, it is correct. An organisation is bankrupt, broke or bust – call it what you will – if it cannot meet its debts.

Countries cannot go broke or have surpluses or declare profits simply because they are not that kind of entity. I would be astonished if any reader of this column – even if he works in the IMF – has ever lent to a country.

He may have written a submission about the desperate plight of Ruritania and argued eloquently for concessionary lending. But to whom have the cheques been written? For the kind of loan of which Mr Wriston was talking it would almost certainly have been a government or state organisation.

I have been led to these musings by reflecting on the mundane subject of the British balance of payments and trying to work out what the ultimate differences are between those who see it as a problem and those who do not.

I want to go a little beyond the usual statistics and debating tricks on either side. Of course I noticed that those who gleefully wrung their hands in horror at the April UK trade deficit were engaging in the usual short-term trick of going by one-month figures. Of course I noticed that if you look at the right number – that is non-oil visible trade for the first four months of the year – then the deterioration is only some £1.6bn at an annual rate. The current account deficit so far this year is running at about 1 per cent of GDP, well within the margin of error – a margin skewed towards overestimate.

Of course I have been following Clifford Pratten's work which shows that the value of overseas investments is rising sufficiently to offset quite a substantial trade gap. Nor has the famous black hole either in the British or the world balance of payments yet disappeared. The teenagers' guide has been suspended while I have been on a sabbatical. But never fear it is coming back.

The balance of payments problem is a hangover from collectivist economics, where governments are expected to run the whole economy

Nevertheless I look at these numbers mainly to keep my end up. There is no such thing as the "British balance of payments deficit". There are merely debts, large or small, wise or unwise, accumulated by individuals, companies, and other organisations, including central and local governments.

The concept of a balance of payments problem is a hangover from collectivist economics. If a government is expected to run the whole economy then its debts are the debts of the nation. But once the government is expected mainly to look after its own debts the problem disappears.

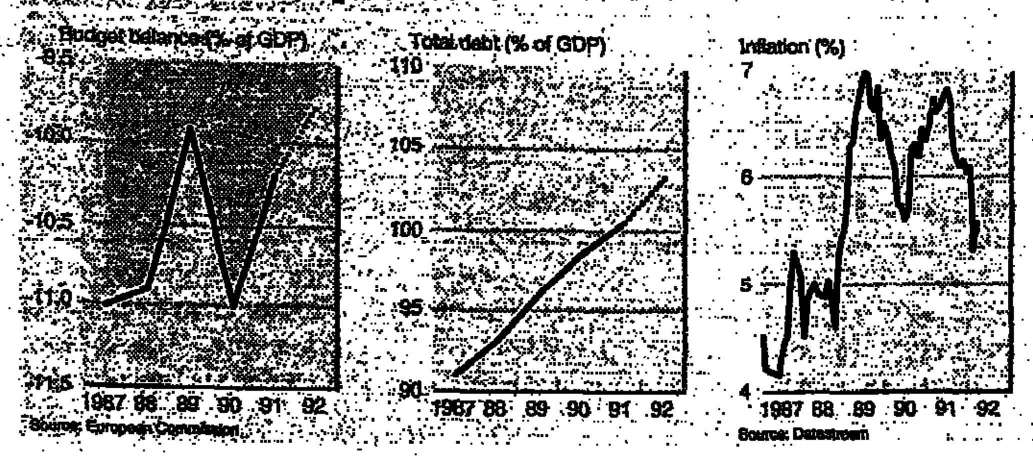
The only difference between an excessive debt which I owe to a citizen of Yorkshire and to a citizen of Texas is the additional element of exchange risk – which, however important is but one of the many risks involved in all borrowing and lending operations.

Therefore, even if I am completely wrong and people like Wynne Godley of Cambridge are completely right in their view of the structural features of the "British economy", there is still no problem for macroeconomic policy.

The government still has several roles. It has some responsibility for the efficiency of the market mechanism. It has to look after its own solvency over several economic cycles. It is responsible for sustaining the value of the currency. At this level of argument it does got matter whether it does so by maintaining the exchange rate against a non-inflationary block, successfully follows a domestic monetary target or uses some other technique, so long as it looks after its own balance and tightens or loosens monetary policy to minimise inflationary and deflationary disturbances.

Unfortunately many of those economists, who would naturally be making such points, are so consumed with hostility to fixed exchange rates, Europe, John Major or the ERM – depending on the exact form in whichever form they see the devil – that they use balance of payments figures for debating purposes and make common cause with those who would like a Gosplan to take charge of all the nation's trade. If you believe that the state is a civil association which provides the framework for individuals and groups to carry out their own activities, then there is no room for a balance of payments, only a government budget and an inflation problem.

Italy: an economy adrift



President
Oscar Luigi Scalfaro

Italy's new president will seek urgent action, writes **Robert Graham**

Desire to heal political and moral wounds

The cartoonists have lost no time in poking fun at Mr Oscar Luigi Scalfaro, Italy's new president, picking on his publicly professed Catholic faith and his authoritarian manner. The 73-year-old head of state was being depicted as an Ayatollah within 24 hours of his inauguration last week.

The humour of the cartoonists has brought into sharp relief the personality of the new president, and the mood of Italy. The country is crying out for leadership – both political and moral. Mr Scalfaro, within the limits of his presidential power, wants to provide it.

The political parties wasted the whole of 1991 rehearsing for general elections, which in the end were held this April. A large protest vote further fragmented the political parties and rendered unworkable an already discredited system of coalition government.

The difficulties of forming a new government risk leaving Italy rudderless – precisely when decisions are most needed. The deteriorating state of the country's public finances demands urgent and unpopular corrective measures. Otherwise, as Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, pointed out over the weekend, the Italian economy will never meet the minimum requirements for economic convergence with its European Community partners.

In the past three months, a moral dimension has also emerged on two fronts. Continuous revelations in the municipal corruption scandal in Milan have angered a nation seemingly immune to tales of pork-barrel politics. Magistrates are uncovering a sophisticated carve-up of commissions on public contracts among all the main political parties, including the self-professed "clean" former-Communist party of the democratic left (PDS).

Mr Scalfaro partly owes his compromise candidature for the presidency for his being seen as a figure untainted by corruption.

The second front is organised crime. The brutal Mafia assassination of Mr Giovanni Falcone, Italy's leading anti-Mafia magistrate, nine days ago, was a direct challenge to the state. It was not just the manner of the killing – blowing up his three-car convoy near Palermo with a ton of explosives. Mr Falcone was the most heavily guarded official, and symbolised the fight against organised crime, which is more powerful today than at any time since the Second World War. At least part of the explanation for the Mafia's survival is seen in the way politicians have been willing to use organised crime and vice versa to their mutual benefit.

Against this bleak backdrop, Mr Scalfaro could prove the benign Ayatollah and promote change. On his inauguration, he took the unprecedented step of "inviting" parliament to form a commission to study proposals for an urgent overhaul of the constitution. He also told the military a large parade in Rome next weekend was inappropriate. The parade has been cancelled, even though the review stands were already erected.

> **The parties are seen as the prime culprits for encouraging an abuse of political patronage**

This week may provide further clues as to how Mr Scalfaro sees his role, when he begins consultations to form a new government. Traditionally, the head of state's right to invite someone to form a government has been treated as a formality. The real power has lain with the parliamentary parties, who have put the president in his job anyway.

However, this does not preclude the president from knocking heads together or acting as an arbiter. Mr Scalfaro's long parliamentary experience, combined with his credentials as an independent-minded Christian Democrat, backed by the second largest party, the PDS, permit him the role of referee – especially when the parties are so weak.

Before the general elections, the main political parties believed the next government would be formed by a continuation of the Christian Democrat-Socialist alliance, which had kept the Communists at bay for years. These two parties, with their minor allies, the Liberals and Social Democrats, planned to continue their carve-up of power with Mr Bettino Craxi, the Socialist leader, as prime minister, and probably Mr Giulio Andreotti, the outgoing premier, being rewarded with the presidency.

The poor showing of the Christian Democrats and the Socialists in the elections ended the prospect of the outgoing four-party coalition forming the next government. Although the coalition retains a narrow majority in parliament, it lacks the credibility to govern on its own, and its leaders' reputation has been damaged by the failure to read the public demand for reform.

The Christian Democrats are in disarray after the April elections – highlighted by the inability of the party to rally to support Mr Arnaldo Forlani, the party's secretary, as the preferred presidential candidate. His resignation, after failing to gain sufficient backing for his presidential bid, hastens a generational change, and strains to the limit the party's capacity to juggle with at least seven different factions.

The Socialists have been gravely damaged for their perceived involvement as the principal actors in the Milan corruption scandal. Milan magistrates allege that at the highest level in the municipality there was an arrangement whereby bids for big construction contracts were rigged and then commissions were handed out on the basis of the quota of votes each party gathered in the elections. The split went allegedly 27 per cent to the Socialists, 20 per cent each to the Christian Democrats and the PDS, and the remainder to the smaller parties.

The scandal has played into the hands of the populist Lombard League, the electoral platform of which was directed against corrupt party politics. But, more generally, the prestige of the parties has been weakened and they are seen as the prime culprits for encouraging an abuse of political patronage which, in turn, has weighed on the size of the huge public sector deficit. To be credible, the next government has to take account of this deep public unease over the perversion of the current political system, whereby state and party interests have become intertwined. But the pressure for change is coming most directly from Brussels. The EC has been issuing increasingly impatient diktats to bring the economy into line with the agreed Maastricht terms.

On the central criteria of inflation levels, interest rates, debt and public sector deficit, the Italian performance is increasingly distant from that of its main EC partners. The public sector deficit is more than 10.5 per cent of gross domestic product, debt is close to 105 per cent of GDP, and retail price inflation is an annual 5.8 per cent. The 1992 budget is so overspent and underfunded that the EC has proposed the rapid introduction of an austerity package. The budget is heading for a deficit of at least L165,000bn (£74.6bn) instead of the L128,000bn agreed with the EC.

The politicians no longer have the excuse of an electoral timetable to duck action. The plight of the economy could well dictate the formation of a "technical" government, with the limited task of economic stabilisation and introducing political reforms to alter the unworkable system of proportional representation. President Scalfaro is likely to stake his reputation on persuading the politicians to agree as soon as possible.

OBSERVER

For whom the poll tells

■ Although she'd probably prefer not to know it, Margaret Thatcher now stands on a par with Karl Marx. Or so say the Russians lately polled by their country's Centre for the Study of Public Opinion.

Mind you, neither of the two ranks very high in the Russians' list of the world's greatest figures. They tie for 15th place in a league still headed by Lenin even though the proportion of people nominating him is down from 67 per cent last year to only 43. The only foreigner in the top ten is Albert Einstein.

The Centre's sociologist Leonid Sedov says most indicators show worsening chauvinistic attitudes among the various ethnic groups in the former Soviet Union.

The Russians' greatest dislike is for the peoples of the Caucasus; then come Jews and Chechens; followed by Central Asians, the Baltic peoples and finally the Ukrainians and Belorussians.

The attitudes of other groups to the Russians vary widely. Whereas Central Asians think them cultured and clever, for instance, the Baltic peoples regard them as the opposite.

In Sedov's view, while the feared force of Russian nationalism is growing, it is still relatively mild. External onlookers, however, may have qualms about the rising popularity of Stalin. With a gain from 15 to 22 per cent over the past year, he now stands third in the ranking.

Durlacher's turn

■ No prizes for predicting who will succeed David Burton as chairman of Liffe. Nick Durlacher, chairman of BZW Futures and Liffe's deputy chairman since 1988, would be entitled to feel miffed if he didn't get the job tomorrow.

Burton, Liffe's longest-serving chairman, has presided over a period which has seen average daily volume surge from 61,000 lots in 1988, to over 1/4m today. A soft-spoken Lancastrian with a passion for antique glass, it was hard at first to see how he could match his flamboyant predecessor, Brian Williamson (now chairman of Gerrard & National). But the former chief dealer at Bank of America has done equally well.

Given the combination of the family name and the backing of Barclays, it might seem that Durlacher is getting the Liffe chairmanship, rather than Jack Wigglesworth, for example, just because it his turn. Not so, say his fans pointing to his hard work in areas such as compliance.

Even so, when Liffe chief executive Michael Jenkins retires later this year – after an accomplished decade at the top – it is important that he is replaced from outside. Futures are an arcane but by no means impenetrable subject – a head for deltas and stop-losses is not really such a rare commodity as the combination of management and marketing skill needed if Liffe is to enjoy an equally prosperous second decade.

Price puzzle

■ Expatriates working for distant multinationals might do well to check which living-cost survey head office uses in setting their pay.

A check on one such survey, just published by the Geneva-based Corporate Resources Group, shows some marked differences from similar studies done by other organisations. Take for instance the CRG cost indices as compared with those produced by the P-E International consultancy by averaging the findings of surveys done by the United Nations, the US government and other official bodies.

Admittedly, the two sets of results – neither of which takes account of housing costs – are largely agreed about other expenses in Japan. Taking London as a base-line, CRG puts Tokyo at 46 per cent higher as against P-E's 43.

But elsewhere, they are at odds. For example P-E rates Geneva at 10 per cent more costly than London whereas CRG rates it the same. Paris is marked at 2 per cent higher by P-E and 5 per cent lower by CRG. Both rate New York lower, but CRG by 16 per cent and P-E by only 8 per cent.

Would globe-trotting readers care to advise Observer which of the estimates, if either, reflects reality?

"If nothing else, we should get a good tan"

Old cronies

■ Which of the following boardroom moves is the more important for Britain's depressed property market?

Last week Li Ka-Shing resigned from HSBC Holdings, parent of the Hongkong Bank, and this week David Li, a somewhat younger member of the colony's movers and shakers club, steps onto the board of Chelsfield, Elliott Bernerd's privately-owned property company. Both men are wealthy, interested in property, and have strong British ties.

David Li, the 51-year-old chief executive of Hong Kong's Bank of East Asia, and 47-year-old Bernerd go back a long way. Bernerd attended Li's 50th birthday party and Li bought a bit of Bernerd's Wentworth golf course and his bank co-managed a private placement of Chelsfield's shares.

If Bernerd is to stand a chance of making a decent stock market debut later this year – and his PR machine seems to be in top gear – he needs more independent names than just Li's on his letterhead. The sight of a wealthy banker going onto the board of a company that his bank does business with, is not always the best buy signal. The potential conflicts of interest have to be set against the value of the business connections.

By contrast, now that Li Ka-Shing has severed his ties with the Hong Kong Bank, he is far less restricted in what he can do especially when it involves the bank's troubled property clients.

New blues

■ Amended version of Al Jolson hit of the 1930s, performed in the weekend sing-along at the Barley Mow, overlooking Canary Wharf:

Once I built a tower to the sun,
Steel and glass all sublime.
Once I built a tower; now it's done.
Buddy, can you spare a dime?

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
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Reality of industry hidden

From Mr Roger Lyons.

Sir, May I echo every word of Leon di Marco's letter (May 20) about the government's blindness to the perilous state of Britain's manufacturing industry. But may I warn that we still face a flood of misleading government propaganda in its endeavours to paint a sympathetic picture of manufacturing leading Britain out of recession.

At MSF's conference in Bournemouth on May 16, a resolution was passed reaffirming our membership's belief that Britain needs "a thriving, expanding and competitive manufacturing industry as the key sector of the economy on whose success all else ultimately depends". We know that a major change is needed in government industrial strategy if this is to happen.

To put pressure on the government we need to open up the debate. That cannot be done if the truth about the state of manufacturing is hidden from public view. It is up to papers like the FT diligently to examine the reality of what is happening.

On the same day Mr Di Marco's letter was published the current account deficit went over £1bn again. Yet in the last few months we have had regular statements from ministers (and, indeed, the CBI) telling us that the figures showed encouraging trends in exports and imports.

MSF is determined that the near silence about the plight of Britain's manufacturing industry is ended. Our members – in manufacturing and the services – depend on a highly skilled, properly rewarded, scientifically backed industry which can put Britain back into the lead again.

Roger Lyons,
general secretary elect,
MSF,
Park House,
64-66 Wandsworth Common,
North Side, London SW15 2SH

Changes to EC constitution not necessary for single market

From Dr Brian Hindley.

Sir, Mr Sutherland's comments (Personal View, May 28) on the long-standing federal characteristics of the EC and on the role of the Commission are quite right. However, his arguments and examples refer to the single market, the principle of which is widely supported – even among members of the Bruges Group. As he says, that support implies a willingness to accept some abrogation of national sovereignty in exchange for measures that are demonstrably necessary for effective functioning of the single market.

But that concession, for that purpose, does not remove the possibility of objecting to abrogations of sovereignty for other purposes. "It is unreasonable to argue against regulation from Brussels," Mr Sutherland says, "particularly when the effect of the regulation is to dismantle protection." What nonsense. Having accepted the principle of the single market, it is unreasonable to argue against regulations that are necessary to put the principle into practice. Any other regulation or act is fair game.

The changes in the EC constitution proposed at Maastricht are not necessary for the single market. Nor are various current proposals of the Commission – for example, the Euro soap opera planned by the directorate-general for information and culture (DG-X). New justification is needed for such measures. Proponents of a "deeper" Community have failed to provide one, as is suggested by Mr Sutherland's attempt to deduce general consent to EC federalism from consent to the single market, and by his ritualistic reference to the Second World War. Few want another war between France and Germany. But what line of reasoning implies that a deeper Community is necessary to avoid one?

The single market is not a central issue in current debate about the structure of the EC. Those who advocate a deepened Community could move the debate forward by providing a reasoned case for their views.

Brian Hindley,
London School of Economics,
Houghton Street,
London WC2A 2AE

Caught out

From R A Delaforce.

Sir, Jurek Martin's comment ("Theeeeere's Johnny", May 23) about cricket being played only in the old British Empire and Holland is surprising. May I add that cricket is played in many "overseas" countries, including the US, South America (Argentina, Brazil) and Europe (Belgium, Denmark, France, Germany, Greece – Corfu, Italy, Luxembourg, Monaco, Portugal and Spain) as well as in the Channel Islands, Gibraltar and Malta.

In fact, certain of these countries will be participating in a European Cricketer Cup competition to be held in England in July this year.

In Portugal cricket has been played since the 1850s with the first match between the British Clubs in Oporto and Lisbon being held in 1861, making this annual event one of the oldest in cricket on the continent of Europe.

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Deregulation the culprit for parlous state of US airline industry

From Mr Doug Henwood.

Sir, Reading Nikki Tait's piece on the financial wreck that is the US airline industry ("Spectre of losses dogs US carriers", May 28) I was struck again by the almost universal inability to draw what should be an obvious conclusion: our 14-year experiment with deregulation has been a total disaster.

American Airlines chairman, Bob Crandall, says his industry "is going down the tubes". One-fifth of domestic airline passengers are now being carried by bankrupt airlines. Venerable names have either disappeared (Pan Am, Eastern) or are at risk of disappearing (TWA).

How can this be? Unions have been broken and real wages cut. Oil prices, despite recent increases, have been well behaved for years and, in real dollars, are well below what they were when the industry was deregulated. On domestic routes, there's no such thing as foreign competition. The surviving airlines, Crandall's prominent among them, are models of tight management. The answer has to be deregulation; what else is there?

Partisans of deregulation point to lower fares as the strategy's triumph. Yes, real fares per seat mile have declined since 1978 – but at pretty much the same pace as they did in the prior 20 years. And here's a fact that deregulators never confront: the air fare component of the consumer price index has risen at twice the pace of general inflation since fare-setting was turned over to the invisible hand. The culprits, of course, are the hidden price increases of longer flights (thanks to the hub-and-spoke system) and tighter purchase restrictions.

The volatility of the airline business is a function of several things, among them high costs of entry and a huge overhang of empty seats. That leads to contradictory pressures of oligopoly and price warfare. Regulation aimed to stabilise these pressures; deregulation has exposed them in rich detail.

Europeans should know this as they move to deregulate their own skies. Unfortunately, these truths are rarely expressed in our own press, much less yours.

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FINANCIAL TIMES
Monday June 1 1992

German defence minister criticised for wanting to abandon project

Bonn delays Euro-fighter decision

By Quentin Peel in Bonn

SUPPORTERS of the £21bn European Fighter Aircraft (EFA) project within the German government have won a one-month delay in the final decision on whether to pull out of the deal.

Postponement of a key parliamentary meeting this week will give Mr John Major, the British prime minister, a chance to persuade Chancellor Helmut Kohl, the German leader, not to abandon Britain, Italy and Spain in the joint production of the aircraft. The two meet for an informal summit in Bonn on Friday.

Mr Volker Rühe, the new German defence minister, is known to be highly sceptical about going ahead with such a sophisticated fly-by-wire fighter when his budget is under severe pressure. He has called for drastic price cuts if the aircraft is to be financed within the DM12bn (£4bn) set aside in his long-term budget.

The chances of ensuring German participation still look exceedingly slim. Most politicians in Bonn doubt the project can win majority support in the German parliament because of the present climate of budget stringency to finance unification.

A final meeting takes place today of the six-member working group of defence experts drawn from the German coalition government, which includes the Christian Democrats (CDU), the Christian Social Union (CSU) and the Free Democrats (FDP).

It will produce a report comparing all possible alternatives to EFA, such as the US F-16 and F-18 fighters, the Swedish Gripen, and the Russian MiG-29, but making no rigid recommendation.

The key meeting of CDU and CSU parliamentarians, scheduled for tomorrow, at which Mr Rühe was due to make his own recommendation, has been postponed until June 16.

The deadline for a final decision is now July 1, when the 1993 draft budget has to be presented to the German cabinet.

The delay was agreed last week at a meeting of leaders of the CDU and CSU chaired by Mr Kohl, and involving Mr Rühe, Mr Theo Waigel, the CSU leader and finance minister, and Mr Mac Streibl, the Bavarian prime minister. The Bavarian-based CSU is a strong champion of the EFA, which would be built largely by the southern German aerospace industry.

According to reports of the meeting, Mr Rühe was attacked sharply by the CSU leaders for letting it be known that he wants to abandon the project. They argued that such a decision would undermine Germany's international credibility, and deal a devastating blow to the country's aerospace industry.

Mr Kohl agreed to put off this week's meeting, giving himself a chance to discuss the project with Mr Major, and by telephone with Mr Felipe Gonzalez, the Spanish prime minister.

The EFA project is supposed to move from its present development phase to the pre-production phase next year. The issue has been brought to a head early in Germany by the need to include DM100m in next year's budget for the pre-production phase.

Despite the peaceful symbols some demonstrators threw red paint at yesterday's ceremony

Bomber Command statue unveiled amid protests

POLICE in London yesterday arrested nine protesters at the dedication ceremony of a statue of Sir Arthur "Bomber" Harris, the RAF chief responsible for the blanket bombing campaign over German cities in the second world war.

The arrests followed the unveiling of the statue by Queen Elizabeth, the Queen Mother, who was interrupted and heckled during a speech honouring Sir Arthur and the 55,000 allied Bomber Command aircrew killed in action.

Scuffles broke out as protesters standing in a crowd of wartime veterans shouted "Harris was a mass murderer".

In her speech the Queen Mother, who was Queen during the war years, said Sir Arthur was "an inspiring leader" and the bombing crews had "given us hope and the means of salvation" during the second world war.

But she urged: "Let us remember, too, all those of every nation and background who suffered as victims of the second world war."

The unveiling took place on the 50th anniversary of a raid by 1,000 British bombers which devastated Cologne. Civic leaders in Cologne and Dresden held ceremonies to remember the civilian victims of Bomber Command.

In Pforzheim, Mayor Joachim Becker said: "A united Europe ... deserves symbols other than a tribute to the man responsible for the deaths of 20,000 citizens of this city when British airplanes senselessly reduced Pforzheim to rubble on February 23, 1945."

Canary Wharf job moves plan

By Ivo Dawnay and John Authers

THE UK government held talks with three developers, including Olympia & York, on terms for a substantial shift of its administrative workforce to London's Docklands even before O&Y's Canary Wharf went into administration last week, it emerged yesterday.

The relocation of up to 5,000 workers from several departments will be top of the agenda when senior ministers meet in Downing Street today under the chairmanship of Lord Wakeham, leader of the House of Lords.

Officials continue to insist there will be no bail-out of Canary Wharf, but one minister confirmed that the aim was to give a firm vote of confidence in the area.

The government also intends to maximise its leverage in negotiating preferential rents by offering to take substantial quantities of space.

Some senior civil servants are even urging the examination of the option of buying freeholds from distressed Docklands property companies, arguing that the crisis has produced a "once-in-50 years" opportunity to buy quality property at knock-down prices.

Furthermore, reports that the government is taking a tough stance on the obligation of any private investor to honour O&Y's commitment to put £400m towards the proposed Jubilee line extension to London Underground were being qualified yesterday.

The initial requirement is for £100m, payable in three tranches over a number of years, and the rest over the long term using a formula based on rent income. Details of the behind-the-scenes discussions emerged as Hanson, the acquisitive industrial conglomerate, and P&O, the transport company, confirmed their interest in the future of the multi-billion pound development.

At the same time, the opposition Labour party stepped up its demands for an emergency Commons statement on the future of Canary Wharf that went into administration owing banks £1.2bn.

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RBC loans loss, Page 15
Over-supply in US, Page 17
Anthony Harris, Page 19

Anti-war march in Belgrade shadowed by fear

By Laura Silber in Belgrade

TENS OF thousands of people staged an anti-war protest yesterday in Belgrade, the Serbian capital.

Mr Ivan Vejvoda, a Belgrade sociologist, said: "We are here with a message of great importance from Belgrade to the people of Sarajevo: We are with you." The Bosnian capital has been under siege for two months.

The cosmopolitan crowd of some 50,000 people, which included mothers and children, demanded an end to the war. They marched through the city centre carrying a black banner, which stretched over a kilometre, symbolising grief about the killings and destruction in Bosnia. Chanting "Slobo, Saddam," they showed their outrage at Serbian President Slobodan Milosevic.

Many demonstrators expressed shame about Serbia's role in the war. The protesters carried signs saying "God does not forgive the sin of murder" and "In memoriam to those killed in Bosnia". These were in stark contrast to the election banners of the ruling Socialists which warned "We don't bargain with the dignity of our fatherland" and "We have faith in our citizens."

Most of the marchers, which made up Belgrade's social elite, feared that the United Nations sanctions were only a prelude to military intervention. Mr Milan Nikolic, an opposition politician, said: "Sanctions are better than military intervention. But I am afraid this is a just a step towards intervention. The main victims of the sanctions will be those who are already against Milosevic. Military intervention would strengthen Milosevic, by causing the automatic homogenisation of Serbs in defence of Serbia."

Ms Sanja Sanader, a tourist agent, explained: "My profession is obviously the hardest hit. But sanctions on the whole will punish the average person, the working class will bear the burden.

"It will not destroy those in power. They won't even feel it. It may even strengthen their hold."

Behind the solemn procession and the pride that Belgrade has finally taken a stand against the violence, loomed the belief that the death and destruction will soon engulf Belgrade. "In the back of everyone's mind is the fear that the war might spread here," said Mr Vejvoda.

Mr Goran Jovanovic, a student at Belgrade University, said: "I came here to show support for Bosnia. We are also here to destroy the regime, but we don't know how."

Mrs Gorica Vukotic said: "I am scared for my children. We asked my relatives in the countryside to start storing up cooking oil, which you can't find anyway, vegetables and canned foods. The sanctions will only speed up the collapse. It is just a question of time before the violence ends up in Belgrade."

US sanctions, Page 3

THE LEX COLUMN

Putting Emu to the test

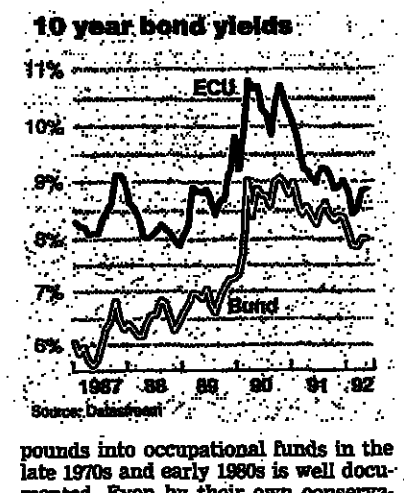
It looks as though Danish voters will vote for ratification of the Maastricht Treaty in tomorrow's referendum. Opinion polls, which had suggested a narrow rejection, last week swung in the other direction. On the assumption (rather dangerous since the UK election) that they are right, European bond and currency markets will heave a sigh of relief.

The perceived wisdom is that rejection would have three main consequences for the markets. Worries that the entire treaty might have to be renegotiated would be a blow to the interest rate convergence theory. This would affect not only the Ecu bond market, but also other high interest markets in Europe, including probably those Nordic countries which have proved vulnerable to devaluation fears in the past. Second, there would be a flow of funds into the D-Mark which would strengthen in the ERM. Third, pressure on the already vulnerable lira could become so intense that a realignment would become inevitable.

The impact would be all the greater as markets are discounting a "yes" vote. If that is the result, reaction may be limited to a modest upward push to bond prices in some of the peripheral, high interest markets. Beyond that, however, it is worth questioning whether the referendum result actually makes much difference to the prospects of an ERM realignment.

In spite of the pressures on European economies resulting from tight German money, the idea of a realignment is currently taboo. Indeed there is a certain machismo attached to holding the line. There is no reason why the Danish vote should change that. The number of those who believe in a last realignment before European monetary union is dwindling. If the likelihood is really that remote, however, the differentials between German interest rates and those elsewhere in Europe should be even narrower than they already are.

10 year bond yields



Source: Datastream

Pensions

The great UK pensions debate is currently focused on the relative virtues of money purchase over final salary schemes, and on the creation of effective safeguards to prevent plundering by a future Robert Maxwell. Investors, however, ought not to lose sight of other, related issues such as the accounting and tax treatment of pension fund surpluses.

The way in which British industry unnecessarily poured billions of pounds into occupational funds in the late 1970s and early 1980s is well documented. Even by their own conservative standards actuaries had become extremely gloomy on a diet of high inflation, rampant trade unionism and low real investment returns. In their defence, of course, they were not to know that equity markets were about to roar and that recession and high unemployment would also serve to fatten up their funds.

The question of who owns a resulting surplus is contentious in the wake of the Maxwell scandal. Employees justly claim a moral entitlement to at least a part of it on grounds both that they put up some of the money through their own contributions and that pensions are a form of deferred pay. The vast majority of companies with well administered schemes would doubtless argue that since they are providers of last resort – as underwriters of any actuarial deficiency – they are also entitled to be the recipients of last resort.

Certainly SSAP 24, the accounting standard introduced in 1988-89 to deal with pensions, makes the assumption that a surplus belongs to the company. The standard offers finance directors the choice of utilising the value via a one-off balance sheet adjustment, or taking it through the profit and loss account spread over the working life of employees. Because of the way this so-called variation reduces the net pension cost charged to operating profits – and creates a substantial above-the-line credit for a handful of top companies – most have tended to choose the latter option. Such treatment is intellectually defensible – today's enhanced profits are balanced by understated profits in the past – but investors should surely demand that companies provide more information about methods of amortisation.

Such transfers are non-cash items, which raises the question of whether groups like the specialty materials group Courtaulds should not be able to take back some of the money for immediate reinvestment in the business. Only Lucas Industries has taken this route, but at the cost of a 40 per cent tax charge seemingly imposed by the government to dissuade small business owners from abusing a tax break. With UK industry undercapitalised at this stage of the cycle it is perhaps a pity that most bona fide operators are caught by this penalty.

EC takeovers

The typical UK view of the European Commission's stalled efforts to harmonise national takeover rules is that not much would change if laws are eventually passed. An article in the Stock Exchange Quarterly suggests plenty will change. In particular, UK companies could be even more vulnerable to takeover within the EC.

Two main reasons are advanced. The first is the UK's relative absence of structural barriers to hostile takeover, including, for example, such historical variables as the level of state ownership. EC legislation would do little to alter these factors, but would concentrate on more obvious technical barriers. These are restrictions typically built into company statutes on matters such as voting rights and dual classes of equity.

The second reason is that EC law would effectively overturn a proven UK system of takeover regulation, without exposing many European companies to the threat of hostile acquisition. UK companies would thus be exposed to further risk, without any concomitant benefits. They might respond by erecting technical barriers of their own, possibly via cross-shareholding arrangements such as that between Guinness and LVMH. But such measures would require shareholders' approval.

In the end, the argument hinges on different philosophical notions of whom corporations are supposed to serve. It is debatable whether parts of Europe are gradually becoming more comfortable with the Anglo-Saxon model of corporate control. The example of Continental/Pirelli in Germany suggests change is occurring, albeit painfully slowly. The Perrier affair in France was something of a milestone. But by the same token, the Dutch and Italians still have a long way to travel.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
				Boulogne	F	21	70	Frankfurt	S	24	75	Majorca	S	24	75	Oporto	R	15	59	Tenerife	F	23	73
				Brussels	F	23	73	Geneva	F	17	63	Malaga	S	28	82	Oslo	S	26	79	Tokyo	C	17	63
				Budapest	F	22	72	Gibraltar	F	24	75	Malta	S	31	88	Paris	F	24	75	Toronto †	R	11	52
Ajaccio	S	-	-	Buenos Aires	F	17	62	Glasgow	C	18	64	Manila	R	32	90	Prague	F	20	68	Tunis	F	28	82
Algiers	S	28	82	Cairo	S	30	86	Helsinki	F	24	75	Melbourne	F	11	52	Reykjavik	F	9	48	Valencia	S	22	72
Amsterdam	S	25	77	Cape Town	C	14	57	Hong Kong		-	-	Mexico City	C	25	77	Rhodes	S	23	73	Venice	C	22	72
Athens	S	26	79	Caracas	F	29	84	Innsbruck	F	24	75	Miami †	S	27	81	Rio d'Janeiro	C	30	86	Vienna	S	22	72
Bahrain	S	37	99	Casablanca †	C	21	70	Inverness	S	16	61	Milan	C	21	70	Rome	F	26	79	Warsaw	F	23	73
Bangkok	F	37	99	Chicago †	S	12	54	Islamabad	F	32	90	Montreal †	R	12	54	Salzburg	S	25	77	Washington †	C	16	61
Barcelona	C	19	66	Cologne	S	26	79	Istanbul	S	20	68	Moscow	S	24	75	S'Francisco †	C	13	55	Zurich	F	20	68
Beijing	S	33	91	Copenhagen	S	24	75	Jakarta	C	33	91	Munich	S	23	73	Seoul	S	27	81				
Beirut		-	-	Corfu	S	25	77	Johannesburg	S	16	61	Nairobi		-	-	Singapore	F	33	91				
Belfast	C	14	57	Dallas †	C	18	64	Lisbon	F	19	66	Naples	F	25	77	Stockholm	S	27	81				
Belgrade	F	24	75	Dublin	C	14	57	London	C	21	70	Nassau	C	32	89	Strasbourg	R	23	73				
Berlin	S	24	75	Dubrovnik		-	-	Los Angeles †	C	18	64	New Delhi	S	35	95	Sydney	S	19	66				
Biarritz	F	23	73	Edinburgh	C	14	57	Luxembourg	S	21	70	New York †	R	17	63	Taipei	R	27	81				
Bombay	S	32	90	Faro	F	21	70	Madeira	F	21	70	Nice	F	22	72	Tangier	F	21	70				
Bordeaux	F	23	73	Florence	F	26	79	Madrid	S	20	68	Nicosia	S	23	73	Tel Aviv	S	25	77				

Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday June 1 1992

INSIDE

Link with Maxwell empire weakened

Mirror Group Newspapers has appointed *Rowe & Pitman*, part of the SG Warburg group, as its lead broker in place of Smith New Court ahead of a planned re-listing of the newspaper group on the London Stock Exchange. *The appointment weakens* a link with the newspaper empire of the late Robert Maxwell (above) which went back to Smith's involvement in MGN's £245m ($440m) flotation in May 1991. **Page 16**

Wytch Farm stake for sale

The 17.5 per cent stake in the UK Wytch Farm *oil* field owned by Atlantic Richfield, the US oil group, is to be sold. It could fetch £200m ($360m). **Page 16**

Banesto may resolve dispute

An attack by British Petroleum on *the accounts* of one of Spain's biggest banks, Banesto, failed to materialise at a shareholders meeting in Madrid on Saturday, leading to speculation that a row between the two would soon be resolved. **Page 16**

Ferruzzi down

Ferruzzi Finanziaria, the holding company for Italy's second biggest private-sector industrial group, suffered a sharp drop in net attributable profits for 1991. The decline stems from a mixture of heavy debt costs, ambitious investments, and the non-recurrance of the extraordinary items which enhanced earnings in 1990. **Page 17**

Weak demand hits steelmakers

Japan's five largest steelmakers reported lower pre-tax profits for fiscal 1991 because of weak demand and higher productions costs. They expect a further decline in earnings this year. **Page 17**

Danes issue FRNs

Den Danske Bank, Denmark's biggest bank, has launched an international offering of subordinated floating-rate notes. **Page 19**

Market Statistics

Companies in this issue

RBC could lose C$300m on O&Y

By Bernard Simon in Toronto

ROYAL Bank of Canada has offset a partial write-off of its *loans to Olympia & York, the* troubled property developer, by reducing its provisions for Third World loans, thereby containing the fall in second-quarter earnings to 8 per cent.

RBC, Canada's biggest financial institution, said that it has classified two-thirds of its C$780m (US$650m) exposure to O&Y as non-performing, resulting in a 45 per cent jump in non-accrual loans over the past year to C$2.7bn.

It has added C$300m to its loan-*loss provisions to cover expected* losses on the O&Y portfolio and some other problem accounts. But this write-down has been offset by an equal rise in value of its outstanding Third World loans, whose book value is now estimated at C$300m less than market value. RBC said that it still expects its net loan losses for the year to be C$740m. The net second-quarter provision was C$185m, up from C$155m a year earlier, but unchanged from the previous quarter.

Earnings slipped to C$212.3m, or 59 cents a share, in the three months to April 30, from C$230m, or 69 cents a share, a year earlier. Net interest income edged up to just over C$1bn from C$977m.

RBC is the last of Canada's major banks to report the results of what has been an unusually difficult quarter. The six banks have disclosed a total exposure to O&Y of C$3.1bn.

But treatment of their O&Y loans, and the impact on their earnings, has differed widely.

Canadian Imperial Bank of Commerce, the ailing developer's biggest creditor, has taken a special charge of C$1bn, which includes the bulk of its exposure.

As a result, CIBC suffered a C$440m loss for the quarter.

On the other hand, Bank of Montreal, which says its loans to O&Y are all secured by cash-generating buildings or marketable securities, has left its estimate of loan losses unchanged for fiscal 1992. Like RBC, Bank of Nova Scotia cushioned the O&Y blow *by reversing Third World write-*downs as a result of the recent appreciation in their value.

Bank of Montreal and Bank of Nova Scotia both reported higher second-quarter earnings, despite their O&Y exposure.

London's river bus, Page 14
UK ministers to meet, Page 14
US property market, Page 17
Observer, Page 13

John Robb talks to **Paul Abrahams** about prospects for the drugs group

A marketing prescription for Wellcome

WELLCOME'S chief executive, Mr John Robb, prides himself on his market-orientated approach to business. The 56-year-old Scot and former consumer products executive at Beecham has proved determined to make the group more market-driven since he was appointed by chairman Sir Alistair Frame in July 1990.

But Mr Robb is now faced with the biggest marketing challenge of his life – the sale of up to 50 per cent of the group in the largest-ever issue by a privately-owned British company. The *offer, scheduled for mid-July*, could raise as much as £4bn ($7.20bn). At first view his task should not be difficult. The company is the fastest growing among the world's 20 largest pharmaceutical companies. On a five-year average, Wellcome has enjoyed the highest earnings-per-share growth rate of any pharmaceutical stock – some 30.3 per cent compared with 17.6 per cent for Glaxo and 15.7 per cent for SmithKline Beecham.

In addition, the company has a dominant position – about 80 per cent – in the fast-growing anti-viral market. Sales of Zovirax, its herpes treatment, are expected to grow by about 20 per cent during the next two years, reaching £820m by 1994. Retrovir, the anti-Aids drug also known as AZT, could reach annual sales of £340m in 1994, according to a recent note by S.G. Warburg, the company's brokers.

But although Wellcome's short-term future looks bright, Mr Robb's task is complicated by two doubts on its long-term growth.

First, the beneficial effects of the group's wide-ranging disposal programme run out next year.

Since he took over the helm, operating margins have improved from 21.2 per cent in 1990 to 24.6 per cent last year. During the first half of this year, they rose 2.5 percentage points to 26.7 per cent. However, more than half of that improvement came from a programme of disposals which is now coming to an end.

The second threat is the end of patents for Zovirax. During the first half of 1992, sales increased 26 per cent. Commentators believe as much as 40 per cent of *Wellcome's revenue growth could* come from this product next year. Its main patents expire in Germany next year, the UK in 1995 and the US and Japan in 1997. Sales are still growing remarkably fast, given that it was launched in 1981.

Mr Robb says he recognises the threat to Zovirax and has developed a twin strategy to deal with the problem. The first element consists of two new compounds known as 256U and 882C which should eventually replace Zovirax. The two drugs should be launched in 1995 and 1996, although both are still in clinical trials. *Timing will be crucial.* SmithKline Beecham, which Mr Robb acknowledges has an excellent marketing track-record is scheduled to launch a competitor drug, Famciclovir, in 1995.

The other element of Mr Robb's defence strategy is to sell Zovirax without a doctor's prescription in chemists. "We don't have the marketing clout to exploit Zovirax in the OTC [over-the counter] market on our own," admits Mr Robb. "We are looking for a partner, particularly in Europe. Two or three are left on the short-list."

Ashley Ashwood

Sir Alistair Frame (right) with John Robb: 'It's incredibly important to raise marketing skills.'

He plays down another possible threat – that to Retrovir, Wellcome's anti-Aids drug. He argues analysts at one stage became fixated by Retrovir, seeing the group merely in relation to Aids, although the drug represented only 11 per cent of group turnover last year.

Competition to Retrovir from new drugs is unlikely to make much impact in the medium term, reckons Mr Robb. "Our view is that Aids will continue to be *treated with* Retrovir in combination with other therapies at least for the next five years. The market *is* growing and the competition is more noise than anything else at the moment."

Concern does exist about a challenge to Retrovir's US patent, however. The patent's validity is being challenged by Barr Laboratories, a US group. The outcome of the case is unclear, since it will be decided next year by a jury in North Carolina. If Wellcome loses it plans to appeal, but Barr would probably be able to market a generic version of the drug in the meanwhile.

In spite of the problems facing the group, Mr Robb is confident he can deliver the targets he has promised. These include underlying sales growth in excess of 10 per cent, an operating margin of 30 per cent by 1996 and earning-per-share growth of more than 15 per cent a year.

The group's research and development has become much more focused, he says. The company remains committed to outstanding research, but has adopted the project management approach perfected by Glaxo in *the 1980s, which involves* dropping compounds which fail to reach development targets on time. Since September 1989, the number of compounds in development has fallen from 78 to 34.

Those drugs that are fully developed will be launched in all possible markets to justify the money invested in them – it costs up to $230m (£127m) to bring a drug to market.

"Marketing is terribly important. We have a great reputation in research and development, but not a comparable reputation in marketing," he says. "We used to think if we got the research and development right the products would sell themselves."

He plans to improve marketing by expanding Wellcome's sales force. He has also hired new sales managers for the US and Japan. Elsewhere he will continue his strategy of co-marketing with other companies.

"It's incredibly important to raise our marketing skills to the same level as our research and development skills," says Mr Robb. *"If we don't we'll be in* trouble."

As he launches a world-wide marketing campaign on Thursday, his most immediate challenge is to make sure the flotation itself does not run into trouble. With as much as £4bn at stake, his much-vaunted marketing skills will be in demand.

Smith Corona quits PC venture

By Martin Dickson in New York

SMITH Corona, the US manufacturer of typewriters and word processors, is pulling out of the fiercely competitive personal computer market little more than a year after it entered the sector through a joint venture with Acer, the large Taiwanese company.

Smith Corona, which is 48 per cent owned by Hanson, the UK conglomerate, said the joint venture would be terminated at the end of next month.

Smith Corona, which has been building PCs under the joint venture agreement, will continue to *do so for a short period* but manufacturing will eventually be transferred to Acer's plants. Acer said it would also continue developing products based on the joint venture's technology, with royalty payments to Smith Corona.

Mr Lee Thompson, Smith Corona's chairman, said the company had been breaking even on the venture but intense price competition in the PC market meant there was little profit opportunity.

When the joint venture launched its first products in March last year Mr Thompson said he hoped that one third of Smith Corona's sales would come from personal computers in three to five years. But he said yesterday that "a third of revenues *doesn't mean anything* if you don't get about a third of profits".

Competition in the PC market was extremely fierce even when Smith Corona entered the field and it has grown much more cut-throat over the past 12 months.

The company's core market of typing and word processing equipment for the home and small business has also been depressed for the past two years, and Smith Corona reported net income virtually halved, at $17.3m, in the first nine months of the financial year.

Mr Thompson said the financial effect of the joint venture termination on Smith Corona was expected to be immaterial.

Analysts have often questioned *whether Smith Corona's core* market faces erosion in the face of cut-price PCs aimed at the home.

However, Mr Thompson said yesterday that the company was getting more and more confirmation that the typewriter and word processor market was quite distinct from PCs.

Time to have a debate on Emu and the Bank

Economics Notebook

By Peter Norman

IN the recent House of Commons debate on the Maastricht Treaties, Mr Norman Lamont, the chancellor, rightly underlined that the issues of European economic and monetary union had been more fully debated in Britain than in any other EC member state.

But *questions concerning* the constitution and responsibilities of the Bank of *England as* the EC moves towards EMU have so far been given no attention at all.

This is a gap in the public debate about Britain's economic future that deserves to be filled soon. Not only are complex issues involved, but timetable factors are coming to the fore. In particular, the term of office of Mr Robin Leigh-Pemberton, the present Bank governor, expires at the end of June next year. Whoever takes over from him for what can be expected to be a five-year term will head the Bank through what may be its biggest changes since nationalisation in the 1940s.

The Bank's status merits discussion for two reasons. One is a global trend towards *making* central banks primarily responsible for combating inflation and giving them independence from government to achieve price stability. If the Bank of England retains its *current status*, it will increasingly be an odd man out among the world's central banks.

The other is the Maastricht Treaty itself, which alongside a single currency envisages the *creation* of a European System of Central Banks made up of an independent European central bank and the central banks of the EC member states.

The government's position – frequently articulated by Mr Lamont – is that responsibility for economic policy, including the setting of interest rates, should, as now, stay unambiguously in national hands during the preparatory second stage of Emu which begins in 1994. As long as this state exists, the chancellor has insisted that the Bank should not be given its independence, otherwise there would be no way of making the conduct of monetary policy accountable to parliament.

But it is inconceivable that the Bank can stay as it is if government and parliament eventually decide to join the third and final stage of union in 1997, when a majority of EC members will be able to decide whether to go ahead with a single European currency and European central bank, or in 1999 when as few as two states can create the union. If Britain decides to be a full member of Emu, the Bank of England will also have to be independent.

The timetable agreed at Maastricht means the UK government and parliament will have to debate whether to move to the third and final stage of Emu before the end of 1996. This is likely to be during the life of the present parliament. Even if the decision goes against joining the third stage of Emu, 1996 would be an occasion for a debate, or even decisions, on the constitution and *responsibilities of the Bank of* England.

A number of thorny issues that cannot wait until 1997 or 1999 are already surfacing. Some are technical, such as the role that the Bank will play in Europe-wide systems for settling payments between banks or supervising banks throughout the EC. Other questions are more hypothetical but fundamental, such as the objectives, governance and account-*ability of the Bank of England* if it becomes part of a European economic and monetary union.

One problem with Mr Lamont's present approach towards the Bank and Emu is that it appears to assume that the Bank could move overnight from its present non-independent status to one of independence within Emu. The change would in fact have far-reaching implications.

The role of the Bank would have to be clearly defined if it became independent. Would it concentrate on securing price stability, like the Bundesbank? Or would it retain the responsibilities for the welfare of the City and industry or bank supervision that the *Bank* has today?

What should be the decision-making body if the Bank assumes responsibility for setting interest rates, either in the context of a European central *banking system or as an inde-*pendent entity?

At present, interest rate decisions are taken by the chancellor after talks between the Bank and the Treasury. But if the Bank became responsible for monetary policy, even as part of a European system of central banks, it would have to restructure its decision-making organs and their accountability.

The Bank Court, which includes industrialists, City financiers and trade unionists as well as Bank officials, clearly could not decide on interest rates because several of its members would be exposed to a potential conflict of interest.

If such decisions were to be taken by a new group comprising Bank officials, operating most likely with a one-person, *one-vote system, the individu-*als concerned would have greatly increased power, raising questions as to whom they should be accountable and how.

Also, who would they represent? Britain, as a unitary *state, is peculiarly ill-placed to* inject regional interests and influences into its bureaucracies. In contrast to the Bundesbank council or the US Federal Open Market Committee, which give the representatives of the US and German regions a say in monetary policy making, there would be no easy way of reflecting the preoccupations of Scotland, Wales, the west Midlands or the north of England in the decision-making centre of the Bank of England.

These are just some of the questions that have to be answered if the UK finally decides to join Emu. The problem is that they are so wide-ranging that they could not be tackled at the last minute.

Indeed, it may be that Britain will not become a full member of Emu. But the implications of Emu for the Bank of England should be considered in depth and in advance, lest *the Bank be pitchforked into a* new environment completely unprepared and with a constitution that does not do justice to the importance of monetary policy for the UK's economic welfare.

Dowty moves to shore up bid defence

By Richard Gourlay in London

DOWTY Group, the UK aerospace and information technology group, could this week bolster its defence against the hostile £494m bid from TI, the specialist engineering *company, with the* help of payments on a cancelled UK Ministry of Defence contract.

Dowty could take a £3m-£4m cancellation payment as an exceptional item in the year to March, increasing the esti-*mated profit by at least 10 per* cent to more than £32m.

This would lift the Cheltenham-based group's apparent recovery from the downturn in the aerospace market and its involvement in the information technology industry.

Dowty is also likely to bring forward, from June 16, its audited preliminary results. Publishing these results before TI's bid closes on June 10 would allow shareholders to estimate 1993 profits.

A TI spokesman yesterday welcomed the opportunity to "see Dowty's full accounts and the answers to the many questions surrounding them".

In a letter to Dowty's shareholders over the weekend, TI attacked the profits estimate. It questioned restructuring and closure provisions and the extent to which Dowty has capitalised development costs.

As the bid enters its closing stages, advisers from both *sides are stepping up presenta-*tions to institutional investors. Dowty says it made mistakes, including the disastrous move into information technology, but has stripped out a lot of costs and refocused.

Arco's 17.5% Wytch Farm stake up for sale

By Steve Thompson

THE 17.5 per cent stake in the Wytch Farm oil field owned by Atlantic Richfield (Arco), the US oil group, is to be offered for sale.

It could fetch between £180m and £200m, according to oil analysts.

Dorset-based Wytch Farm is the UK's largest onshore oil field, producing around 60,000 barrels of oil a day.

The sale of the Arco stake will be carried out by Morgan Grenfell, the merchant bank.

Other stakes in Wytch Farm are held by BP (50 per cent), Premier Consolidated (12.5 per cent), Clyde Petroleum (7.5 per cent) and Purbeck Petroleum (7.5 per cent).

Purbeck Petroleum was set up by a syndicate of banks last year to manage some of the assets of Kelt Energy, the oil group which ran into severe problems in financing its debts.

Kelt is believed in trade circles to have turned down a bid of £80m for its 7.5 per cent stake in Wytch Farm in 1991.

Arco inherited its 17.5 per cent stake in Wytch Farm following its takeover of Tricentrol in 1988, during a period of intense takeover activity in the UK oil industry.

Arco had originally targeted Britoil, but lost out in the battle for control of the latter to BP.

There was speculation yesterday that British Gas may be interested in acquiring Arco's Wytch Farm stake. British Gas discovered Wytch Farm in partnership with BP, with each holding a 50 per cent stake in the oil field.

However, British Gas was forced by the Government to sell its holding in the late 1980s.

Arco is also putting up for sale other of its European oil and gas assets, including its interests in the Amethyst and "V" fields in the North Sea.

The US group is embarking on a plan to reduce its capital spending by 20 per cent over the next five years.

Mirror Group appoints Rowe & Pitman as lead broker

By Richard Gourlay

MIRROR GROUP Newspapers has appointed Rowe & Pitman, part of the SG Warburg group, as its lead broker in place of Smith New Court ahead of a planned re-listing of the newspaper group on the London Stock Exchange later this month.

The appointment, which was confirmed yesterday, weakens a link with the newspaper empire of the late Robert Maxwell that went back to Smith's involvement in MGN's £245m flotation in May 1991.

Sir Michael Richardson, the chairman of Smith New Court, whose close personal contacts with Mr Maxwell brought the business to Smiths is also vice-chairman of Rothschilds, the merchant bank advising the Maxwell family in negotiations with its bankers.

Smith New Court was asked to remain as a joint broker but MGN wanted a fresh start with new advisers.

MGN was suspended in December at 125p, leaving administrators to Mr Maxwell's private interests with a controlling 51 per cent stake in the newspaper group.

The stake is effectively owned by banks such as Midland and National Westminster because they were pledged as collateral to cover Maxwell debt.

Mr Robert Maxwell, the late chairman of Mirror Group Newspapers.

"Advisers are now looking at nursemaid crisis management for the next phase of bringing MGN to re-listing," a MGN source said.

Their first task will be to protect shareholders from a potential share price collapse on re-listing, given that at least £150m stolen from Mirror pension funds will have to be replaced and £100m is missing from the company.

In the next three weeks MGN's preliminary accounts for 1991, an annual report and re-listing particulars will be prepared.

Advisers will then begin the not insubstantial task of convincing existing shareholders that MGN is strong enough to attempt to trade out of its problems.

Mr John Talbot, the administrator of Mr Robert Maxwell's private interests, said in January that there would be no early sale of the stake and that consideration would be given to a sale "when comprehensive information is available from the board".

Shortly thereafter three groups independently ruled out buying MGN. They were Mercury Asset Management, the venture capital arm of SG Warburg, Pearson, publisher of the Financial Times and Mr Tiny Rowland's Lonrho group, publisher of The Observer. See Lex

Hunter Saphir down 10% excluding claim money

By Peggy Hollinger

HUNTER SAPHIR, the fresh produce, herbs and spice group, suffered a 48 per cent drop in pre-tax profits to £2.5m last year due to the absence of insurance payments for losses arising from a fire at the company's main spice factory.

Excluding the exceptional £2.1m insurance benefit in 1991, pre-tax profits for the year to February 29 fell by only £253,000. Profits were buoyed by lower interest charges of £2.2m (£4m), following a £15m preference issue in March.

Turnover rose by 4 per cent to £181.5m.

The dividend is cut from 5.05p to 2.5p with a 1.5p (3.7p) final. This is an attempt to bring the dividend back into line with the lower turnover since the fire in 1989, and after its virtual exit from food manufacturing.

"It would be wrong to pay a distorted high dividend," said Mr Nicholas Saphir, chairman, "because it will take another year to get [the UK spice factory] back to the profitability that supported a 5p dividend."

Taking into account the £1.7m in preference shares, the dividend was also uncovered.

The British Pepper and Spice factory would continue to make losses in the current year, although they were expected to be lower than the £2m incurred – before insurance payments – in 1992.

Orders in the new, larger factory had increased by 20 per cent since October, Mr Saphir said, although there was still about 50 per cent spare capacity.

During the year, Hunter sold two businesses – Butterkist, the toffee popcorn producer, and Matthew Walker, Christmas pudding manufacturer – for £11.4m. Emile Tissot, the frozen food business, would be sold "when we are offered the right price," Mr Saphir said.

Japanese credit banks report mixed results

By Stefan Wagstyl in Tokyo

JAPAN'S three long-term credit banks report that increases in profits from lending operations in the year to end-March, were offset by declines in profits from securities investments and by increased bad debt provisions.

Pre-tax parent company results were mixed. At the Industrial Bank of Japan, unconsolidated pre-tax profits fell 2.9 per cent to Y129.1bn ($1bn). Long Term Credit Bank reported a 7.9 per cent increase to Y101.3bn and Nippon Credit Bank saw a 35.2 per cent rise to Y70.6bn.

Profits from lending operations were boosted by the declines in Japanese and overseas interest rates which allowed the banks to widen lending margins. They also tried to increase loans to high-margin borrowers and to companies willing to pay fees for non-loan services.

At IBJ, net business profits, a measure of profits from lending operations, rose 76 per cent to Y160.2bn.

LTCB reported a 39.7 per cent rise to Y78.0bn. NCB saw net business profits soar 180 cent to Y54bn.

These increases are much larger than those recorded earlier this week by Japanese commercial banks because long-term credit banks make long-term loans and so benefit from falling interest rates since their fund-raising costs fall faster than rates charged to borrowers. These large profit increases offset declines in financial investment income caused by the weakness in the Tokyo stock market.

All three banks suffered losses on the values of their stock portfolios. By restraining growth in assets, the three banks managed to keep their ratios of capital to assets above the 8 per cent minimum which the Bank for International Settlements will bring into effect next March. IBJ posted a ratio of 8.33 per cent, LTCB 8.27 per cent and NCB 8.32 per cent.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Fiat (Italy)	FSM (Poland)	Car manufacture	£111m	Revised 90% deal signed
Pepsico & Eastman Chemical (US)/MPOST & Khimvolvokno (Belarus)	Belpak (JV)	Bottle maufacture	n/a	$100m investment planned
Techtonic (Hong Kong)	Unit of Novatel Communications (Canada)	Telecoms	£16m	Via local subsidiary
Honda Motor (Japan) Guangzhou Motorcyle (China)	Wuyang-Honda Motors (JV)	Motorcycle manufacture	£9.7m	Claimed as first such JV
WR Grace (US)	Renacare (UK)	Pharmaceuticals	£5m	Macarthy disposal
Silentnight (UK)	Matthias Houben (Germany)	Bedding	£4.25m	Profit related price
Amer (Finland)	Bertmarks Forlag (Sweden)	Publishing	£4m	Buy from receiver
Hughes Aircraft (US)/ Enichem (Italy)	Hughes-JC Technology (JV)	TV equipment	n/a	Video projection venture
BP Chemicals (UK)/ EniChem (Italy)	Strategic alliance	Chemicals	n/a	Desperately seeking synergies
National Semiconductor (US)/Israel partners	JV	Semiconductors	n/a	Agreement to set up jv

Source: FT Mergers + Acquisitions International

Greece Fund board to amend structure

THE BOARD of Greece Fund, a closed-end investment company listed on the London Stock Exchange, is proposing to amend the fund's structure following complaints that the shares were trading at a large discount to net asset value and were illiquid, writes Sara Webb.

The board will seek shareholder approval for the Greece Fund – managed by Schroder Investment Management – to be turned into an open-ended investment company, and will allow investors to redeem their shares at the net asset value.

The fund's board has agreed to allow limited redemption of the shares. "In view of the fact that trading on the Athens stock exchange is still relatively illiquid by international standards, the board believes it necessary at this stage for the redemption right to be restricted ... to once each quarter", it said in a statement.

Up to 25 per cent of the issued shares can be redeemed in the quarter after the new proposals are implemented, and a further 5 per cent of the shares may be redeemed in each subsequent quarter.

Schroder Investment Management said that it was unclear whether the fund would be allowed to retain its London listing once it became an open-ended fund. However, the fund is seeking an alternative listing on the Irish Stock Exchange in case it is forced to give up its London listing.

The board said it would move the central management and control of the Greece Fund from the UK to Jersey.

Banesto, BP may resolve stake dispute

By Peter Bruce in Madrid

AN ATTACK by British Petroleum on the accounts of one of Spain's biggest banks, Banesto, failed to materialise at a shareholders meeting in Madrid on Saturday, leading to speculation that a row between the two would soon be resolved.

The differences between the two companies, leading to several sharp exchanges, centre on a 2.6 per cent stake in Banesto held by BP which the UK oil group claims Banesto should repurchase. BP has had the stock since it bought Banesto's oil refiner, Petromed, last year. At the time Petromed held the 2.6 per cent of its parent and BP thought it was understood Banesto would buy this stake back.

But Banesto, due to falling profits at the Corporacion, has been loathe to do so, especially as BP has been trying to ensure it paid something similar to the price the stock was worth when the Petromed sale was completed. Since then, Banesto stock has fallen about 30 per cent.

Mr Conde announced consolidated group net profits – including the Corporacion – of Pta52.3bn for 1991 ($523m), a 7.29 per cent fall on 1990. This was largely due to the Corporacion profits falling from Pta18.9bn to just Pta3.8bn.

At Banesto bank, 1991 net profits rose 14.3 per cent to Pta45.6bn and its financial group (Banesto and affiliated banks) where pre-tax profits increased 25.7 per cent to Pta74.8bn.

Ferruzzi down sharply as debt expenses climb

By Haig Simonian in Milan

FERRUZZI Finanziaria (Ferfin), the holding company for Italy's second biggest private-sector industrial group, suffered a sharp drop in net attributable profits, to L115bn ($93.8m) for 1991, against L248bn the previous year.

The decline, on the back of a 6.3 per cent rise in sales to L17,790bn, stems from a mixture of heavy debt costs, ambitious investments, and the non-recurrance of the extraordinary items which enhanced earnings in 1990.

Ferfin reaped substantial capital gains in 1990, principally from the sale by its Montedison subsidiary of its 40 per cent stake in the public-private Enimont chemicals joint venture. Asset sales in 1991 were more limited, despite the group's goal of concentrating on core sectors such as chemicals, agro-industrial and energy.

Gross operating profits rose *11.2 per cent to L1,962bn*, despite lower margins for polymers, owing to lower demand from big industrial users.

The group balance sheet weakened further, with a rise in net debt to L8,198bn from L6,665bn in 1990 and a debt equity ratio down to 0.88 from 0.76. To broaden its funding sources, Montedison recently announced plans for a domestic bond issue of up to L500bn.

Investment spending remained high at L1,156bn, although a small fall from L1,397bn in 1990 reflected the gradual completion of a heavy spending phase, the company said.

The dividend will remain unchanged at L45 for ordinary shares, and L75 for savings stock, despite the declining trend in earnings, which have now fallen for three years in a row.

Ferfin made a characteristically upbeat forecast for the current year. Sales in the first quarter rose 5 per cent to L4,420bn, while the gross operating margin climbed 7.5 per cent, thanks especially to a strong performance in pharmaceuticals.

Among steps being taken to improve earnings is the merger of Montedison's Eridania and Béghin Say sugar subsidiaries, formally approved last week. The deal should push up profits by around L60bn a year.

However, plans for the possible flotation of the group's interests in the financial services sector, put together in the SIFI subsidiary, appear to have been put on hold because *of the depressed state of the* Italian equity market.

● The influential Parisian banker, Mr Jean-Marc Vernes, 69, has announced he is to retire at the end of the year as chairman of Béghin-Say, the French sugar group controlled by Ferruzzi, writes Will Dawkins from Paris.

Mr Vernes helped engineer the merger of two French sugar groups to form Béghin-Say in 1972. He became chairman five years later and fostered increasingly close links with the Italian group throughout the 1980s.

Finmeccanica float closer

FINMECCANICA, the company controlling the engineering and aerospace activities of Italy's state-owned IRI group, has moved closer to flotation, writes Haig Simonian. It now has approval for its merger with SIFA, a quoted holding company owned by IRI.

Under the transaction, which involves a two-stage capital increase and a bond issue, Finmeccanica should raise around L2,400bn ($1.9bn) and be quoted by November.

Shareholders in SIFA will be offered 9 shares in Finmeccanica for every 4 shares held, based on evaluation by Lehman Brothers, the US investment bank.

The deal is part of Italy's partial privatisation programme.

SEC to ease rules for asset-backed offerings

By Karen Zagor in New York

US companies may soon find it *easier to issue asset-backed* securities under a rule change proposed by the Securities and Exchange Commission (SEC), the US securities industry watchdog.

The SEC plans to ease regulations for asset-backed securities offerings by exempting issuers of the debt from provisions of the Investment Company Act, which regulates mutual funds in the US.

The SEC's latest proposal is part of its more general review of the 1940 act, which covers investment management regulation in the US. The SEC has been considering overhauling *the rules governing the* mutual fund industry for about two years.

Although the number of asset-backed offerings has risen sharply recently, the SEC believes the development of some types of asset-backed deals has been constrained by a requirement that the offerings be registered as mutual funds.

The latest proposal, which has been put out for public comment for 60 days, would free asset-backed offerings that meet some criteria from the SEC's mutual-fund rules. One of the requirements is that the securities receive above investment-grade ratings by at least two rating agencies.

At present, the three largest types of asset-backed offerings – auto loan-backed, mortgage-backed and some credit card receivables – are already exempt from the mutual fund rules.

Correction

European Parliament

The FT of May 29 stated that the European Parliament hoped to raise Ecu1bn from the international capital markets to pay for its new chamber and offices in Brussels. In fact the European Parliament will lease, and not own, the buildings. The actual borrower will be Société Espace Léopold.

US faces up to the realities of oversupply

O&Y's woes have spoiled dreams of property sector recovery, writes Alan Friedman

Until quite recently, the US commercial property market thought it had seen the worst. Prices in some areas of the country had begun to stabilise and it was even agreed that values had probably bottomed out in the long-suffering north-east.

Then came Olympia & York. The placing of the company's Canary Wharf development into administration in the UK has sent a shiver through the US market. Suddenly fund managers, investors, bankers, bondholders, lawyers and property executives have had to contemplate a scenario in which the Reichmanns decide to file for the bankruptcy protection of all or part of their US property empire.

Some participants in the O&Y restructuring think it inevitable that the Reichmanns will eventually make a US filing. And several O&Y creditors – and not only banks – are already understood to be seeking ways in which they can attach themselves to the company's US assets.

One adviser to a big O&Y bank creditor says that over the next six months US creditors may face a request from the company for fresh cash – needed to make repairs and improvements on some of the 28m sq ft of New York office space.

The possible sale – now being negotiated – of a 34-storey property on Park Avenue may generate cash in the short term, but probably not enough. Other New York disposals could follow.

What everyone agrees is that O&Y filing or not, the US market has received a psychological body blow.

David Shulmann, a commercial property specialist at Salomon Brothers in New York, predicts that O&Y's troubles will affect capital values and the confidence of investors. "If the Reichmanns, who are widely regarded as geniuses in real estate, can't make money, then investors will shy away from the market."

However Mr Shulmann and others in New York argue that even if O&Y did not exist, the outlook for the US commercial property market would still be fairly bleak.

In a study just published, the Salomon property team surveyed vacancy rates in 55 important urban US office markets and found 540m sq ft of 2.7bn sq ft vacant, making for a national average vacancy rate of 19.8 per cent. Based on a forecast of vacant space being absorbed at the rate of about 32m sq ft a year, Salomon says the market currently faces a 12-year supply of space.

US VACANCY RATES AND OFFICE SUPPLY

Region	Vacancy rate (%)	Years of supply
North-east	18.5	21.4
Midwest	8.9	12.4
South-east	20.5	9.4
Sthn California	21.0	8.7
Nthn California	14.2	6.9

Source: Salomon Brothers

Most property insiders say values are now down by 30 to 50 per cent from peak levels of five years ago. The recent purchase by Bertelsmann of Germany of a Manhattan office block is seen as an indicator of current price levels – the German media and entertainment group paid a price equal to 50 per cent of the building's 1990 construction cost.

Mr Arthur Mirante, chairman of Cushman & Wakefield, the biggest commercial property manager in the US, says he does not think a further drop in values is likely. However he says he has never in his career seen a national vacancy rate so high.

Other property executives agree the present slump is far worse than the last big US property downturn in the mid-1970s, which was more a correction of a long-running bull market by comparison.

Mr Mirante says the rate of jobs growth is a key measure of recovery prospects; he complains that redundancies at many US companies are "keeping vacancy rates high and markets from improving". He calls O&Y's troubles "another negative for real estate as an investment".

Mr Alvin Dworman, a banker and property investor who manages a multi-billion dollar US property portfolio, calls the oversupply of US office space "gigantic". He notes that markets in northern California and parts of the Midwest are holding up reasonably well, and that regions such as Texas and Colorado are already recovering from the worst.

But, he says, the north-east is still "on a slight slide". He terms downtown Manhattan as "really very bad".

The recovering fortunes of several big US commercial banks, meanwhile, remain intertwined with the commercial property market. Where it seemed, at the start of 1992, that the banks had made enough bad debt provisions, the latest forecasts from analysts such as Standard & Poor's suggest many banks have not set aside enough reserves.

Last week S&P claimed the overhang of property loan losses "will continue to be a significant drain on industry earnings over the next few years".

The consensus in the US is thus that O&Y's troubles can only worsen an already gloomy outlook.

The market, as Salomon Brothers puts it, "is so deep in the hole of oversupply that it will take many years to climb out".

Weak demand hits steelmakers

By John Burton in Tokyo

JAPAN'S FIVE largest steelmakers reported lower pre-tax profits for fiscal 1991 because of weak demand and higher productions costs. They expect a further decline in earnings this year.

Several companies have been trying to reduce dependence on steel by diversifying into other areas. This strategy has so far not increased profitability, but instead depressed earnings as *interest costs climb due to* increased capital spending.

Nippon Steel, the world's largest producer, had a 37.7 per cent fall in pre-tax profits, to Y100.2bn ($773.74m), due to decline in steel sales. But a 21.7 per cent growth in its engineering business lifted total sales 0.8 per cent to Y2,629bn.

Its net profit increased *24.9* per cent to Y83.7bn due to the sale of fixed assets.

A cut in steel production will lift sales in fiscal 1992 to Y2,500bn, while pre-tax profits will tumble to Y55bn.

Kawasaki Steel blamed rising operating costs and sluggish sales for its 46.5 per cent drop in pre-tax profits to Y43.1bn. Earnings were also harmed by heavier interest payments for capital spending connected with the overhaul of steel facilities.

A domestic price increase had little impact on sales, which grew only 1.9 per cent to *1,208bn, because of weak* demand for steel products.

NKK said lower domestic demand and a higher interest burden were responsible for its 25.5 per cent fall in pre-tax profits to Y37.5bn. But net profit climbed 53.8 per cent to Y35.8bn due to the sale of land.

Pre-tax earnings for fiscal *1992* are expected to fall to Y20bn, reflecting stagnant demand and a rise in interest costs as NKK almost doubles investment spending to Y218.4bn.

NKK is streamlining its steel and steel-building businesses, while diversifying into new areas, *such as electronics* and chemicals.

Sumitomo Metal Industries said increased sales from non-steel activities failed to prevent a 45 per cent fall in pre-tax earnings to Y40.4bn.

A dip in steel revenues to Y990.7bn, combined with higher operating costs, caused *the profit decline.*

Sumitomo expects the costs of its merger with Nippon Stainless Steel in October to nearly halve pre-tax profits to Y20bn for fiscal 1992.

Kobe Steel said losses on securities holdings, as well as increasing operating costs, meant a 15.5 per cent drop in pre-tax earnings, to Y47.7bn. Net profit climbed 24.7 per cent to Y29.2bn due to the sale of land.

SA investors extend Dutch broker interest

By Ronald van de Krol in Amsterdam

INTEGRO, the European arm of a group of investors which controls Investec Bank of South Africa, has acquired a small Dutch stockbroking firm, Th. Wouters en Zoon. The deal marks its second acquisition in the Netherlands' financial community since the late 1980s.

Wouters, *which has a staff of* five, is to be integrated next year with Heerze, another small Amsterdam stockbroking firm acquired by Integro in 1989.

Terms of the latest deal were not disclosed.

Wouters' client list includes private as well as institutional investors. Heerze, which has a staff of six, concentrates mainly on European institutional investors.

The two stockbroking firms will retain their separate identities for the rest of this year before being integrated during 1993.

Integro's next priority for European expansion is Frankfurt, where it is particularly interested in the options and futures markets, according to Mr Ian Kantor, Integro's chief executive director and single *biggest shareholder, with* 25 per cent of the group's shares.

Integro already has offices in Geneva, Zurich and London, where its activities include the trading of German bunds.

In South Africa, the group has a controlling interest in Investec Bank, an investment bank, as well as in two other Johannesburg-listed companies, Investec Holdings and Intrust.

UK GILTS

Success of future funding in doubt

THE Bank of England has every reason to feel satisfied with the way the funding programme has proceeded so far in the 1992-93 financial year. Since the Conservatives won the general election, the Bank has sold about £11bn of gilts, achieving more than a third of the government's estimated funding requirement.

However, against this success, some market participants are starting to wonder whether the Bank's luck will hold, or whether the job of issuing substantial amounts of gilts will prove tough in future.

As one UK fund manager put it: "The funding which has been accomplished so far has been achieved against an unprecedented background – we've seen a Conservative victory, a commitment to the Exchange Rate Mechanism (ERM) and low inflation. It's been very easy for the Bank to sell gilts in that sort of environment. The big question is to what extent the UK institutions want to continue stocking up with UK government bonds."

While few of the big UK fund managers are prepared to go on the record, many of those questioned about their portfolios admit they have increased their gilt allocations since the run-up to the election.

One manager at a US fund management group said his group's exposure to the gilt market had trebled since just before the April election – from 4 per cent to 12 per cent of total portfolio.

Another manager at one of the big UK fund management groups said his firm was a heavy buyer of gilts in February and March, and it had raised the proportion of its portfolio held in gilts from zero to 4 per cent.

"Our reasoning was that the gilts market had started to get very worked up about the possible consequences of a Labour government, despite the fact that Labour repeatedly stressed its commitment to the ERM. We found there was good value to be had in gilts, but we've started to reduce our holdings slightly now because everyone believes that inflation isn't a problem any more."

Mr Nick Henderson, head of fixed income at Gartmore, says his group has increased the proportion of its global bond portfolio held in gilts from 5 per cent to 10 per cent. However he adds that the balanced portfolios – those invested in a mix of bonds and equities – have kept their gilt holdings at a fairly constant level.

If one looks back to the 1970s, the average UK pension fund kept about one-third of its funds invested in gilts. However, during the 1980s, fund managers increased the proportion of their funds invested in equities in order to achieve long-term capital growth: the proportion of portfolios invested in fixed income instruments – gilts and foreign government bonds – fell from 24 per cent in 1980 to 7 per cent in 1989, but increased slightly to 9 per cent last year, with roughly half of that in gilts.

"The bond culture has definitely declined in the UK and it could take time before fund managers really do increase their fixed-income holdings further," says Mr Henderson.

Few UK fund managers seem inclined to raise their gilt holdings much above 10 per cent, and some baulk at moving above 6 per cent. If demand from them for gilts really has peaked, then the Bank may have to rely increasingly on overseas investors to buy up its stocks.

Sara Webb

US MONEY AND CREDIT

Economic data points to modest growth

IT WAS a week which began with inflation jitters, yet ended with a bond market rally. What came in between was a series of economic indicators, generally confirming a "modest growth" scenario.

The inflationary worries owed more to external events than domestic matters. Reports of Saudi Arabia's change in oil pricing policy sent crude prices higher and the bond market into hasty decline. Its retreat was then aided by two relatively buoyant sets of statistics: the monthly Conference Board survey showed that consumer confidence improved significantly in May, the third straight month that progress had been seen, while car sales also showed some incipient recovery.

So down went the benchmark 30-year long bond, and prices of other fixed-income securities, at both the short and long end of the market, followed suit. The long bond fell by 11/32 to 100⅞, on Monday, with the yield rising from 7.82 per cent to 7.91.

However matters were not destined to stay this way. Twenty-four hours later, bond investors shrugged off a mixed durable goods report, and by Wednesday they were rapidly reassessing the size of the potential oil price rise.

As Bear Sterns noted: "While it is true that the price of oil has increased from a low of $18 in February to the current price of $22, it is still 8 per cent below the previous near-term peak of $24 in November 1991."

Relatively tight monetary policy, its analysts argue, should limit the future inflationary risk, while longer-term supply-demand factors also argue against a sustained rise in oil prices.

A day later, the bond market was focusing on some weak money supply figures – showing that all three of the most closely tracked money supply measures fell during the week ending May 18 – and largely ignoring a fairly pronounced drop in weekly unemployment claims.

This was not entirely quixotic. When the Federal Reserve last eased monetary policy in April, it cited weak money supply growth as a reason. Although some analysts have been sceptical, wondering whether this was really the underlying reason, the bond market has paid increased attention to the money supply numbers ever since.

On Friday, there was then the cheering sight of a revised first-quarter gross domestic product number, which showed the economy performing only slightly better than originally suggested. This was in contrast to a previous prediction, by the chairman of the President's Council of Economic Advisers, that the revised figures would be "substantially" higher than first estimates.

And, just to round off the market's feeling of relief, the Chicago purchasing managers' survey showed a modest upturn in the manufacturing sector last month, but with the employment component of the index falling from April levels. So, on that relaxed note, the long bond ended the week with another ⅜ gain, at 101 13/32, to yield 7.83 per cent.

Now all eyes are on the May employment report, due out on Friday. If this is truely grim, some pundits suggest that room still exists for a further easing.

However, most observers doubt the statistics will be decisive. Donaldson, Lufkin & Jenrette, for example, estimates that non-farm payroll employment rose by 110,000 workers in May – slightly less than the 126,000 increase in April. It predicts that the unemployment rate overall should have eased modestly, from 7.2 per cent two months ago, to 7.1 per cent in May.

Nikki Tait

EUROPEAN BONDS

Focus on Danish treaty referendum

ATTENTION in the European government bond markets will focus on this week's Danish referendum on the Maastricht Treaty on European Union.

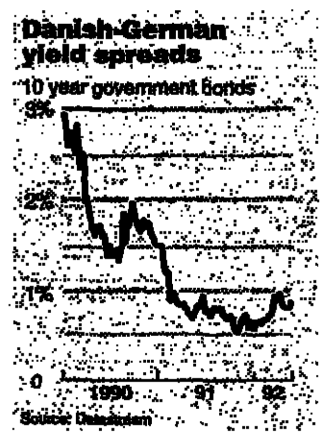
Although the referendum is tomorrow, the results will not been known until Wednesday. As it is seen as one of the biggest potential obstacles to the ratification of the Maastricht Treaty, a vote in favour would set an important precedent for the other member countries, which must decide on whether to ratify the treaty.

Opinion polls over the last few weeks have shown a slight majority for the "no" votes; as a result the yields on Danish government bonds widened against those on German paper.

However, an opinion poll on Tuesday showing a swing in favour of Maastricht for the first time in nearly a month prompted a sharp rally in the Danish bond market on Wednesday. The rally came in a week when various holidays kept the other European government bond markets quiet. A Gallup poll on Friday showed an even stronger swing.

If Denmark votes in favour of Maastricht on Tuesday it will pave the way for Danish yield convergence, and Danish government bond yield spreads over German bunds would start to narrow again.

S. G. Warburg points out that 10-year yield spreads could narrow by a further 20 basis points. It says a "yes" vote in Denmark would probably be "a major signal to start building up exposure in Sweden and Finland", the two Nordic neighbours which have applied to join the EC.



■ The Anglo-Saxon government bond markets showed the best returns in local currency terms last month, according to Kemper Investment Management. Canada was the top-performing market, reporting a 3.23 per cent increase, followed by the US and the UK with gains of 2.27 per cent and 2.23 per cent respectively.

For dollar-based investors, Japan showed the highest return, with a rise of 5.41 per cent last month.

Sara Webb

JAPANESE BONDS

Concern mounts over trade surplus

RECENT fluctuations in the Japanese government bond market have been extensive, dominated by external factors such as movements in the dollar-yen exchange rate and speculation over monetary easing in the US.

A month ago the yield on the 129 10-year benchmark bond stood at 5.68 per cent; at the end of April it had risen to 5.75 per cent; on Friday it closed at 5.47 per cent.

Concern is mounting over the ballooning current account and trade surplus. For the fiscal year ended last March, the current account surplus surged 167 per cent to a record $90bn, while the trade surplus reached a record $113bn.

To show their commitment to reducing the surpluses, Japanese authorities are determined to keep the yen under Y130 against the dollar, ahead of this month's meeting of the Group of Seven finance ministers. Japan is under greater pressure from the US and Europe to stimulate slowing consumer demand to decrease exports and increase imports. Investors reckon an easing of credit in the US will give the Bank of Japan more room to lower interest rates.

The short-term focus of the bond market will be next week's announcement of the *tankan*, or the Bank of Japan's quarterly survey of business sentiment. According to a survey by the Ministry of International Trade and Industry last month, 78 per cent of businesses perceived conditions as bad, while only 2.9 per cent thought they were favourable.

First-quarter GNP figures, to be announced later this month, will also give some indication of where the economy is heading. Mr Robert Feldman at Salomon Brothers in Tokyo says weak business investment and construction figures could depress economic growth to an annualised 1 per cent.

While expectations of weak growth and low business sentiment present the central bank with good reason to lower rates, concerns of oversupply due to large issues on the corporate bond market are likely to limit decline in yields of long-term bonds.

With equity-linked financing at a halt due to the weakness of the equity market, and a squeeze on banks' capital-adequacy ratios curbing lending, more and more Japanese companies are dipping into the straight bond market for funds.

Domestic and overseas corporate bond markets have become alternative financing sources for Japanese companies, which face redemptions of equity-linked bonds issued during the stock market boom, and those pressed for capital investment funds.

Emiko Terazono

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 9 3/4 94	200	106¼		5.76
ABN 9 1/8 94	200	105⅝	+⅛	6.32
AETNA LIFE & CAS 7 3/4 16	200	101⅞	-⅛	7.58
ALBERTA PROVINCE 8 5/8 96	750	106	+⅛	7.00
ALBERTA PROVINCE 9 3/8 95	600	108⅛	+⅛	6.53
AMERICAN EXPRESS ZERO 00	450	50	+⅛	8.46
AMERICAN GENERAL 9 3/4 95	100	105⅞		7.54
AMERICAN INTL 0 04	750	36⅛		8.57
ASIAN DEV BANK 0 04	1000	37½	-⅛	8.33
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NORWAY 7 96	1000	101⅛	[illegible]	[illegible]
ONTARIO 8 1/2 01	600	102¼	+⅛	8.08
ONTARIO HYDRO 11 5/8 94	200	109	-⅛	5.85
OSLO 7 7/8 97	150	102	+⅛	7.34
OSAKA PREFECTURE 8 1/2 94	140	105⅝	+⅛	5.75
OSTER KONTROLLBANK 8 1/2 01	200	104⅜		7.71
OSTER KONTROLLBANK 9 95	200	107⅝	+⅛	6.31
OSTER POSTSPARK 10 1/2 94	150	108⅝		5.69
PANASONIC FIN 9 3/8 94	300	106⅛		5.59
PETRO-CANADA 7 1/4 96	200	101⅝	+⅛	6.77
PETROBRAS 10 96	200	96⅛	-⅛	11.22
PHILIP MORRIS 9 7/8 98	200	106⅛	+⅛	8.46
PROCTER & GAMBLE 10 95	150	101⅞		9.31
PRUDENTIAL FIN 8 1/4 01	300	99⅝		8.30
PRUDENTIAL RLTY SECS 0 99	366.216	59⅞	+⅛	8.05
QANTAS AIRWAYS 8 5/8 96	97.75	105⅛	+⅛	7.00
QUEBEC HYDRO 9 01	300	104½		8.25
QUEBEC HYDRO 9 3/4 98	150	109⅝	+⅛	7.85
QUEBEC PROV 9 98	200	105⅛	+⅛	7.73
QUEENSLAND GOVT 10 1/4 95	100	109⅛		6.75
RALSTON PURINA 11 3/4 95	150	111⅛	+⅛	7.32
REED PUBLISHING 9 5/8 97	150	107⅜	+⅛	7.69
SAINSBURY 9 1/8 96	150	106⅛	+⅛	7.24

U.S. DOLLAR STRAIGHT (continued)	Issued	Bid price	Chg on week	Yield
SAS 10 99	200	106⅛	+⅛	8.70
SAS 10 1/8 95	150	107⅝	+⅛	7.53
SBAB 9 1/2 95	900	108⅛	+⅛	6.39
SBC FINANCE 7 3/4 96	200	103⅛	+⅛	6.70
SEAGRAM CO 8 1/2 96	100	102⅜	-⅛	7.76
SEARS EURO TRUST 8 3/4 96	750	104⅜	+⅛	7.36
SEARS O/S FIN 0 98	500	61⅛	+⅛	8.20
SEARS ROEBUCK EURO 9 3/4 95	300	105⅞	+⅛	7.40
SNCF 7 1/4 94	175	103	+⅛	5.29
SNCF 9 1/2 98	150	110	+⅛	7.41
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
THORN EMI 5 3/4 04 £	103	124⅝	-1⅛	+7.08

DEUTSCHE MARK STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN AMRO 8 1/2 96	500	99⅝	+⅛	8.65
AUSTRIA 6 3/4 99	750	92		8.32
BNP 8 1/4 01	200	100⅛	-⅛	8.22
DEUTSCHE FINANCE 7 1/2 95	1000	96½	-⅛	9.01
EIB 5 3/4 98	400	89⅞	+⅛	8.07
EIB 6 1/4 99	600	90⅛		8.17
EUROFIMA 8 3/4 96	400	101	-⅛	8.44
FIRST INTERSTATE 5 3/4 96	100	85⅛	-⅛	10.33
IND BK JAPAN FIN 5 5/8 96	200	89⅞	-⅛	8.88
INTER AMER DEV 9 00	300	104⅛		8.27
IRELAND 6 1/2 99	300	90⅛	-1	8.44
LUFTHANSA INT FIN 5 7/8 98	500	88⅜		8.53
NAT BK HUNGARY 10 3/4 98	500	100⅝	+⅛	10.64
QUEBEC HYDRO 8 5/8 01	600	100⅝		8.52
SWEDEN 6 1/8 98	300	91⅝	+⅛	7.98
TURKEY 10 3/4 96	500	100⅛	+⅛	10.56
WORLD BANK 0 15	2000	19⅛		7.13
WORLD BANK 5 3/4 96	300	91⅛	-⅛	8.36
WORLD BANK 8 3/4 00	1250	103	-⅛	8.21

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	87⅛	-1	7.22
AUSTRIA 4 5/8 98	100	90		6.79
CHUBU ELEC POWER 6 3/4 01	300	98		7.06
COUNCIL EUROPE 4 3/4 98	250	88⅛	-⅛	7.27
EEC 5 1/2 00	100	90		7.10
EIB 6 1/2 98	800	98⅞	-⅛	6.72
ELEC DE FRANCE 7 1/4 06	100	100½	-⅛	7.18
FINLAND 5 3/8 95	150	94⅝		7.23
GENERAL MOTORS 7 1/2 95	100	99⅛	-⅛	7.69
JAPAN DEV BK 5 1/2 94	100	95⅛	-⅛	8.59
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FRENCH FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
CEPME 10 95	2000	102⅝	-⅛	8.97
ELF-AQUITAINE 9 99	600	101⅛	-⅛	8.75
EURATOM 7 5/8 98	500	93⅛		9.12

EQUITY WARRANTS	Expiry date	Bid price	Chg on week	Prem
ASAHI GLASS	24/06/98	17⅛	-⅛	29.12
CANON	24/05/95	12⅛	-⅛	16.89
HANKYU DEPT STORES	14/03/96	5	-⅛	55.69
HINO MOTORS	06/07/94	⅝	+⅛	95.71
KOBE STEEL	12/06/96	2⅛	+⅛	63.91
MITSUBISHI EST	11/03/94	1		
MITSUI TOATSU CHEM	30/01/98	3	-⅛	
MORINAGA	13/06/95	11	-⅛	90.52
NICHIREI CORP	11/06/98	11⅛		49.67
NIPPON COMSYS	31/01/95	3⅛	-⅛	60.96
NISSHIN STEEL	18/04/96	2⅝		
ROYAL HOTEL	14/03/95	1⅛		72.95
SMC	25/07/95	2⅛	+⅛	86.73
TAKASHIMAYA	02/07/96	8	+⅛	45.27
TOYO SASH	05/08/97	5⅛	+⅛	
YAMANOUCHI PHARM	01/03/94	12⅛	+⅛	21.37

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn – current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem – percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem – exercise premium over current share price. Bond warrant ex yld – exercise yield at current warrant price.

Closing prices on May 29

INTERNATIONAL BONDS

Floating-rate sector stirs after dormant two years

THE REVIVAL of the dollar floating-rate note market gathered momentum last week, with two more banks – Instituto Bancario San Paulo di Torino and Banco di Roma – raising funds in the international bond market.

Other financial institutions which issued in May included Banesto, SBAB, Crédit Lyonnais, Sumitomo Bank, Citicorp, and the World Bank.

Together with a handful of issues earlier in the year, the deals suggest that the FRN market is spluttering into life after two years of dormancy.

The FRN market is a natural source of wholesale funding for banks and, in the late 1980s, it provided a ready supply of cash.

Bank treasurers usually prefer to take floating-rate funding as a matter of prudent balance sheet management: floating-rate liabilities linked to interbank interest rates are a good match for assets, since most loans are also Libor-linked.

However, during 1990 and 1991 the FRN market dried up. As most of the large economies moved into recession, interest rates were cut.

In this environment, few institutional investors wanted to hold floating-rate paper and take a diminishing return.

Banks themselves, keen buyers of FRNs in the 1980s to use additional lending capacity, came under pressure to shrink balance sheets to meet strict capital-to-assets ratios. Liquid floating-rate securities were easy to dump into the market.

Moreover, recession and loan losses led to a deterioration in the credit quality of most international banks. Investors demanded a higher return from bank FRNs and wider margins over interbank rates.

There are signs that these conditions are now reversing. Although US interest rates may be cut again to stimulate a sluggish economy, six-month dollar Libor – the reference rate for most dollar FRNs – may not fall far below the current 4.25 per cent before rising again.

In this environment, there are good arguments for fund managers buying floating-rate instruments as a natural hedge against higher interest rates in the future.

While banks remain under pressure to meet the capital adequacy ratios, the pressure to shrink balance sheets has passed.

Meanwhile, demand for loan finance in most economies remains very subdued. Buying FRNs is again seen as a way of using up any excess balance-sheet capacity.

In this respect, the Basle Accord on capital adequacy actually legislates in favour of bank FRNs: they carry only a 20 per cent risk weighting, against 100 per cent for loans to companies.

Hence a bank must set aside five times more capital against holdings of fixed-rate corporate bonds than against FRNs issued by another bank.

Meanwhile, the credit quality of many international banks has, at least, stabilised. Institutional investors are more willing buyers of paper issued by banks, whether fixed- or floating-rate.

Little surprise that the first US bank into the Eurodollar FRN market this year was Bank of America – one of the few banks to have been upgraded by credit rating agencies last year.

The bank's $200m issue launched in February was its first since 1987.

Even for an improving credit, the cost of funds has risen sharply since the 1980s. In 1985, BankAmerica raised $400m 12-year funding at 6.25 basis points over three-month Libor. This year it paid 37.5 basis points over Libor for five-year funding.

When demand for FRNs was subdued, banks and other borrowers could achieve better funding rates by issuing fixed-rate debt and arranging an interest rate swap to achieve a floating-rate liability.

However, swap rates have deteriorated sharply over the past five years. Issuing fixed-rate bonds to achieve a floating-rate liability has become more and more costly.

Certainly, all the banks which issued FRNs last month found it cheaper to pay the margin over Libor demanded by investors – even at new wider levels – than issue fixed-rate bonds and then arrange a swap.

If swap rates continue to tighten, borrowers other than banks may find the FRN market a cheaper source of floating-rate funds than the straight bond market.

Simon London

Top Danish bank launches $100m subordinated FRN

By Sara Webb

DEN DANSKE BANK, Denmark's biggest bank, has launched an international offering of subordinated floating-rate notes.

The $100m, eight-year issue is intended to count as upper tier 2 capital. It marks the first time a Danish bank has launched such notes in the international market since the implementation of the EC Own Funds and Solvency Directives in 1990.

Under the Basle Accord on capital adequacy, banks must maintain a minimum capital-to-assets ratio of 8 per cent.

Half of the total capital must be tier 1 (or core capital), consisting of common equity and perpetual preference shares, and the remainder can be tier 2 (or non-core capital), including dated preference shares, subordinated loans and hybrid debt instruments.

Den Danske Bank's $100m issue has a coupon of Libor plus 110 basis points during the first five years. Den Danske Bank has the right to redeem the notes at par after five years; however if the bank does not call in the notes it will pay a coupon of Libor plus 250 basis points.

It has a long-term senior debt rating of Aa2 from Moody's Investors Service, and A-plus from Standard & Poor's.

Salomon Brothers said the issue was sold to traditional floating-rate note investors.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Toagosei Chem.Inds.(a)♦†	100	1996	4	3⅛	100	Daiwa Europe	3.125
Venezuela Collat.DCB 1(b)†	75	1994	2	8.75	99.50	CSFB	9.034
Tintas(c)†	40	1994	2.5	11	97.75	ABN Amro	12.069
Banco di Roma(g)‡†	200	1997	5	(g)	100.15	Sanwa Intl.	-
Ist.Ban.San Paolo(i)‡†	150	1997	5	(i)	100.10	Kidder,Peabody Intl.	-
Sanwa Fin.Aruba(k)‡†	300	2002	10.25	(k)	100	Sanwa Intl.	-
Credito Italiano(l)‡†	200	1997	5	(l)	99.775	Merrill Lynch Intl.	-
Den Danske Bk.(m)‡†	100	2000	8	(m)	100	Salomon Bros. Intl.	-
Walsin Lihwa Corp.(o)§	50	2002	10	3	100	Jardine Flemming Intl.	3.000
STERLING							
Municipality Finance†	100	1997	5	9.5	101.05	CSFB	9.228
Bradford & Bingley B.S(d)‡†	100	1995	3	(d)	99.45	Samuel Montagu	-
Coventry B.S.(j)†	40	(j)	-	12.125	100.749	Kleinwort Benson	-
ECUs							
Kommuninvest(h)†	90	1995	3	9.625	101.41	Natwest Cap.Mkts.	9.067
CANADIAN DOLLARS							
NTT Corp.†	200	1997	5	8.5	101.41	Goldman Sachs	8.146
BP America Inc.†	150	2002	10	9.5	101.60	CSFB	9.248
AUSTRALIAN DOLLARS							
Deutsche Bk Finance†	100	1998	6	9	102.00	Deut.Bk.Cap.Mkts.	8.560
FRENCH FRANCS							
KFW Intl.Finance†	2bn	2002	10	8.75	99.36	Credit Lyonnais	8.849
Aerospaciale(e)†	800	2002	10	9.125	101.96	Credit Comm.de France	8.807
Credit Comm.de France†	1.5bn	2000	8	9	100.99	Credit Comm.de France	8.822
Eurofima(n)†	500	1999	6.75	8.625	100.128	Credit Comm.de France	8.584
SWISS FRANCS							
Yamazen Corp.★★♦	60	1997	-	4.25	100	Deutsche Bk.(Suisse)	4.250
YEN							
Kawasaki Steel Corp.†	30bn	1997	5.25	6	101.80	Daiwa Europe	5.588
LIRE							
BMW Finance(f)†	150bn	1997	5	11.85	101.875	Ist.Ban.San Paulo	11.338

★★Private placement. §Convertible ♦With equity warrants. ‡Floating rate note. ♦Variable rate note. †Final terms. a) Exercise price fixed at 2.60%. Non-callable. b) Deal is backed by $138m nominal debt conversion bonds series DL. Callable at par from June 1993. c) Coupon payable semi-annually. Non-callable. d) Coupon pays ⅛% above 3 month Libor. Fungible with existing £100m issue. Amount increased from £75m. Fees undisclosed. e) Fungible with existing FFr1bn deal. Non-callable. f) Bullet issue. Non-callable. g) Callable on interest pay dates July 1995 and 1996 at par. Coupon pays 25bp over 6-month Libor rate. h) Amount increased from Ecu65m. Non-callable. i) Coupon pays ⅛% above 6-month Libor rate and payable semi-annually. j) Undated Mandatorily Convertible Subordinated Notes, convertible into Permanent Interest Bearing Shares (PIBS). Coupon payable semi-annually. Fees undisclosed. k) Callable on or after 5.9.97 at par. Coupon pays 50bp over 3-month Libor until 5.9.97 then 60bp over 3-month Libor thereafter. l) Callable in June 1994 at par. Coupon pays 15bp over 6-month Libor and payable semi-annually. m) Callable from 1997 at par. Coupon pays 1.10% above 6-month Libor for the first 5 years then 2.5% thereafter. n) Fungible with existing FFr1bn deal. Non-callable. Fees undisclosed. o) Callable at 104% on or before June 11, 1997 declining by 1% per annum to par. Put option on 11.6.97 at 132.59 to yield 8.50%. Note: Yields calculated on ISMA basis

Anthony Harris

Being beastly to the bankers

THE government has won no friends in the City over the Canary Wharf affair. It is accused of dithering over moving civil servants eastwards, short-sightedness over the Jubilee line, and in general of being beastly to the banks.

Yet the government has surely done the right thing by its own free-market principles. It has bailed nobody out, it will get its new offices cheaper, and some future landowner will surely regard a large contribution to the tube line as a prudent investment in value enhancement. Above all, there is a good deal to be said for being beastly to the banks at a time like this, not only to save money, but as a form of education.

The case is made in a new paper from the US National Bureau of Economic Research. Paul Asquith, Robert Gertner and David Scharfstein studied* 102 companies which issued junk bonds and then got into cash-flow trouble (mainly, it seems, not because they could not afford the payments they had undertaken, but because the burden distracted their managements, and made them less competitive). Some of them survived, but in no case because their banks helped. On the contrary, banks seem positively to have preferred bankruptcy, because their were unsecured lenders to absorb any losses.

Now it is true that the US is not Britain. Bankruptcy is not so final: Chapter 11 allows an orderly debt work-out where this is possible and not just, as here, when the creditors are optimistic – or, more likely, trying to postpone the evil day. There is a far larger number of banks, so lenders are less likely to find that a ruthless approach to one defaulter pushes other and otherwise sound borrowers over the edge.

All the same, it would be surprising if British banks were to prove much more accommodating if a similar study were made here. It is nearly always a bank, with collateral, that pulls the plug. That is why so many of us, and not just recent bankrupts, feel a certain *schadenfruede* when we see banks join their borrowers in trouble because, as at Canary Wharf, the collateral proves largely illusory. That may teach them.

In the NBER study it was those companies which still had some assets they were free to sell which were likeliest to survive. In the UK, where companies have fewer alternatives to bank credit (and small companies none), the assets are all hocked; hence the buiness failures which follow any epidemic of banking folly. In the world of property development, this "system" has its merits: nothing so quickly restores sane values as a wave of receivers' sales. But it would still be much better to prevent values being bid up to insane levels in the first place; and in the world of operating companies which produce goods and services, the process is disruptive and wasteful.

Can bankers be made wise? Probably not, but at least they can be kept cautious. The most effective way would be my own (largely friendless) proposal to outlaw collateral, by enacting that banks would rank with all other creditors in a bankruptcy (a one-clause Bill would do it). This would force banks into relationship banking, rather than simply paying lip service to it in hard times. Attention to cash-flow and management competence prevents nasty surprises – a sound practice which enabled some small banks to survive the holocausts in New England and Texas.

Failing a change in the rules, the best the government can do is prolong the agony, and so ensure that it is more than 17 years before folly breaks out again. It could also give a useful signal when it appoints a new governor to the Bank of England this year.

It should appoint none of those who were in authority during the Big Bang and the subsequent follies. However sage their private warnings may have been at the time, they are publicly identified with what happened on their watch. Much better a new banker like Lord Alexander, whose whole experience is of clearing up the mess; or, perhaps, a veteran like Mr David Scholey, who passed the "If" test, and kept his head.

**Anatomy of financial distress. Working Paper 3942. NBER, 1050 Massachusetts Ave, Cambridge, Mass 02138-5398. $5 ($15 outside US).*

WORLD STOCK MARKETS

AUSTRIA

1992 High	Low	May 29	Price Sch
2,890	2,130	Austrian Airlines	2,230xd
570	408	Creditanstalt Pf	529
3,925	2,830	EA General	3,505
906	750	EVN	863
16,200	9,850	Jungbunzlauer	15,801
1,074	840	OeMV	892xd
1,650	1,420	Perlmooser Zement	1,600
700	388	Radex Heraklith	608
1,889	1,520	Reininghaus Brau	1,666
308	193	Steyr Daimler	214
456	261	Veitscher Magnesit	374
567	495	Verbund (Br) A	528
5,320	3,950	Wienerberger	4,810
1,200	998	Z-Laenderbank	1,035

BELGIUM/LUXEMBOURG

1992 High	Low	May 27	Price Frs.
2,600	2,110	ACEC-Union Min	2,595
2,250	1,760	AG Group	1,965
4,350	3,220	Arbed	4,195
3,590	3,200	BBL	3,470
12,000	11,500	Bank Intl a Lux	11,550
12,400	11,675	Banq Gen Lux Pts	12,050
1,348	960	Barco	1,336xd
13,800	9,100	Bekaert	13,000
8,800	6,510	CBR Ciment	8,570xd
2,350	1,920	CMB	2,340xd
5,150	4,800	Cobepa	5,020
5,030	4,780	Cobepa AFV 1	4,830
178	141	Cockerill Priv	173
5,070	4,410	Colruyt	4,700
9,700	7,650	Delhaize Frs Lion	8,990

FRANCE (continued)

1992 High	Low	May 29	Price Frs.
688	565	Beghin-Say	688
518	450	Beghin-Say Cert Inv	496
3,350	2,400	Bongrain	3,340xd
683	514	Bouygues	626xr
1,295	945	CGIP	1,154
202.50	162.50	CM B Packaging	183.50
1,205	983	Canal+	1,185
339	271	Cap Gemini S	300.90
2,825	2,291	Carrefour	2,715
187.90	132.20	Casino	175
848	600	Cetelem	777
1,298	885	Chargeurs	1,282
554	400	Club Mediterranee	531xd
380	330	Coflexip	345
701	600	Coparex	615
204.90	161.60	C C F	193xd
1,050	896	Cr Fonc France	955xd
677	490	Cred Lyon (CI)	588
1,179	916	Credit National	1,080
3,390	2,325	Damart	3,374
458	338	Docks de France	429.50
376.70	260	Dollfus Mieg Cie	373
933	710	EBF	836
2,449	2,030	Eaux Cie Genl	2,394
486	341.50	Ecco	473.50
403.80	348.50	Elf-Aquitaine	402
289	230	Elf-Aquitaine Certs	279.80
494.90	300.50	Essilor Int	465
2,160	1,622	Euex	1,910xd
1,680	1,243	Eurafrance	1,598
726	551	Eurocom	710
165.20	118	Euro Disney	121
127.80	117	Fineidel	122
705	580	Fonc Lyonnaise	679

INDICES

NEW YORK

DOW JONES	May 29	May 28	May 27	May 26	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3396.88	3398.43	3370.44	3364.21	3398.43 (28/5)	3172.41 (2/1)	3398.43 (28/5/92)	41.22 (2/7/32)
Home Bonds	100.07	100.05	99.93	100.04	100.17 (19/5)	98.41 (20/3)	100.17 (19/5/92)	54.99 (1/10/81)
Transport	1370.14	1347.72	1359.68	1360.80	1467.68 (20/2)	1301.57 (8/4)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	213.45	214.70	213.01	212.76	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3433.95 (3408.28) Low 3384.17 (3354.86)

STANDARD AND POOR'S

	May 29	May 28	May 27	May 26	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	415.35	416.74	412.17	411.41	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	492.47	494.15	487.45	487.06	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	35.03	35.08	34.87	34.73	35.80 (13/5)	32.40 (8/4)	35.80 (13/5/92)	8.64 (1/10/74)
NYSE Composite	228.87	229.24	227.15	226.86	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	394.69	392.30	391.85	391.89	418.99 (12/2)	380.90 (8/4)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	585.31	580.49	577.35	575.65	644.92 (12/2)	560.33 (28/4)	644.92 (12/2/92)	54.87 (31/10/72)

	May 22	May 15	May 8	year ago (approx.)
Dow Industrial Div. Yield	2.92	2.79	2.77	3.11

	May 27	May 20	May 13	year ago (approx.)
S & P Industrial div. yield	2.65	2.63	2.62	2.79
S & P Indl. P/E ratio	28.77	28.92	29.19	18.89

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Gen Motors	4,171,500	39⅞	+ ⅛
RJR Nabisco	2,963,200	10¼	+ ¼
Centel Corp	2,526,000	32	---
Glaxo	2,292,000	28¼	+ ½
Telefonos	2,206,300	56⅞	+ 1
Merck	1,874,400	50⅞	- ⅛
Sprint Corp	1,833,500	23¼	---
Syntex	1,819,900	38	- ⅛
Philip Morris	1,715,400	77⅞	+ ⅛
Waste Man	1,683,100	35¼	- ⅛

TRADING ACTIVITY

† Volume Millions	May 29	May 28	May 27
New York SE	204.835	195.230	179.970
Amex	14.198	14.604	15.115
NASDAQ	(u)	153.200	138.337
NYSE			
Issues Traded	2,262	2,250	2,276
Rises	971	990	844
Falls	722	689	795
Unchanged	569	571	637
New Highs	61	51	43
New Lows	12	26	31

CANADA

TORONTO	May 29	May 28	May 27	May 26	1992 HIGH	1992 LOW
Metals & Minerals	3110.19	3097.07	3087.21	3046.84	3238.87 (16/1)	2828.26 (8/4)
Composite	3387.93	3375.34	3382.90	3382.30	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	1784.66	1779.43	1784.04	1781.72	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

**Saturday May 23: Taiwan Weighted Price: 4637.59, Korea Comp Ex. 575.87. ‡ Subject to official recalculation. Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, CAC40 and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 29 May 1992

	Stocks Traded	Closing Prices	Change on day
Meiji Milk Prod	7.6m	912	+2
Ricoh Co	6.9m	529	+3
Sumitomo Chem	6.7m	466	+21
Nippon Mining	5.7m	489	
Mitsubishi Kakok	4.2m	1,140	-30
Toa Steel	3.2m	1,070	
Nippon Express	3.0m	669	+16
Hitachi Zosen	3.0m	570	-8
Nisshin Steel	2.6m	375	+5
Tokyo Steel MFG	2.4m	3,030	+100

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AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Yield	5¼	45.29	45.80	48.41	5.15	[illegible]
Charities	5¼	97.35	98.44	104.5	4.73	[illegible]
Japan	5¼	32.00	32.27	34.25	0.17	[illegible]
Emerging Markets	6	60.51	61.93	66.23	0.70	[illegible]

For Mathews see Canon UT

For Mayflower Mngmt see Sheppards UT Mngmt

Mercury Fund Managers Ltd (1000)H
33 King William St, EC4R 9AS 071-280 2860

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5	133.9	133.9	142.2	0.00	40928
(Accum Units)	5	143.1	143.1	152.0	0.00	40929
American Opps	5	54.94	55.68	59.40	0.00	40922
(Accum Units)	5	55.69	56.46	60.22	0.00	40923
British Blue Chip	5	65.93	65.93	70.29	3.79	40924
(Accum Units)	5	75.41	75.41	80.40	3.79	40925
Cash *	0	100.9	100.9	100.9	9.93	40904
(Accum Units) *	0	122.2	122.2	122.2	9.93	40905
European Growth	5	166.3	166.3	176.2	0.51	40926
(Accum Units)	5	176.5	176.5	187.1	0.51	40927
European Income	5	64.38	64.38	68.24	3.44	40928
(Accum Units)	5	79.26	79.26	84.07	3.44	40929
General	5	417.4	418.5	446.4	2.72	40932
(Accum Units)	5	775.7	777.8	829.7	2.72	40933
Global Bond	5	105.5	105.5	110.8	6.67	40318
(Accum Units)	5	112.5	112.5	118.2	6.67	40319

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Newton Income	6	165.90	169.90	180.14	6.07	40208
Newton Global	6	232.66	232.66	224.36	1.42	40209
Newton General	6	132.17	135.09	144.47	4.09	40210
Newton Intl Gif	6	97.24	98.73	105.04	7.47	40212

Norwich Union Tst Managers (1200)H
PO Box 124, 51/59 Rose Lane, Norwich 0603 682234

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Master Trust	6	91.68	91.68	97.52	3.32	40452
UK Equity†	6	115.44	116.97	124.44	5.96	40111
UK Equity Income	6	111.42	113.19	120.41	5.12	40405
UK Smaller Co's	6	108.77	110.12	117.15	2.40	40406
UK Equity Growth	6	110.38	111.91	119.05	4.20	40404
UK Index Trading & F	6	116.46	115.29	122.95	4.24	40462
Intl Index Tracking F	6	96.46	97.49	103.71	1.46	40464
International	6	159.72	161.40	171.70	1.94	40112
European	6	126.34	127.38	135.51	0.98	40114
Pan European	6	97.46	98.62	104.92	3.04	40997
Nth American	6	122.62	123.83	131.73	2.09	40115
Nth Amer Smllr Cos	6	105.25	107.41	114.27	0.00	40463
Japanese	6	57.14	58.00	61.70	0.00	40465
Pacific	6	130.72	132.75	141.22	0.99	40113
South East Asian	6	131.30	133.39	141.90	1.03	40433
International Bond	6	104.01	104.07	110.64	6.69	40301
Gilt & Convertible	6	101.86	102.03	108.54	8.06	40300
Property F	6	71.66	73.63	78.33	6.85	40760
Cash Deposit Accum F	0	100.84	100.84	100.84	7.61	40255

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 - 379 - 0444.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	271.7	271.7	288.8	0.78	41410
(Accum Units) ♥	5	319.8	319.8	339.9	0.78	41411
British	5	881.3	897.6	949.7	5.26	41416
(Accum Units)	5	1477.9	1505.3	1592.6	5.26	41417
European	5	341.4	341.4	363.1	1.43	41418
(Accum Units)	5	370.1	370.1	393.6	1.43	41419
Japan	5	97.15	97.15	103.4	—	41420
(Accum Units)	5	97.93	97.93	104.2	—	41421
New Pacific	5	210.6	210.6	225.0	1.56	46365
(Accum Units)	5	216.3	216.3	231.1	1.56	47654
Investment Tst May 27	5	163.8	163.8	175.0	3.51	47588
Mngd Equity	5	132.9	134.3	142.1	2.71	47586
Mngd Equity Acc	5	141.0	142.5	150.8	2.71	40756
Mngd Cash	0	96.44	96.44	96.44	9.35	47985
(Accum Units)	0	121.1	121.1	121.1	9.35	48867
Majority Stg	1	100.55	100.55	101.55	9.25	42703
Majority Stg Acc	1	111.51	111.51	112.62	9.35	46684
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 261010						
International May 15	0	49.63	49.63	50.09	1.77	46406
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham 0403 232323						
Equity	6	650.5	658.0	703.7	2.76	41423
North America	6	80.57	80.57	86.17	0.41	41424
Far East	6	89.22	89.22	95.40	0.76	41425
W'wide Bond	6	47.32	47.32xd	50.34	6.27	41426
European	6	69.73	69.73	74.58	1.51	41429
Equity Income	6	73.09	73.09	78.17	4.71	41430
Portfolio	6	60.22	60.22xd	64.41	1.69	41431
UK Leading Cos	6	46.66	47.24	50.26	2.85	—
Broker Trusts						
Worldwide Growth	6	47.00	47.00	50.00	2.23	47726
Intnl Equity	6	46.16	46.51	49.74	2.74	—
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingstoke, Hants 0800 525725						

	Bid Price	Offer Price	Yield Gross	City-line
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Property Apr 30	189.10	192.95	8.21	40825
Equity Apr 30	905.90	918.60	3.83	40826
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond May 28	106.01xd		10.17	40883
(Accum Units)	658.97		10.17	40884
NAACIF May 26	43.00xd		9.03	46917
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † May 29	140.7	150.6	1.79	46925
UK Small Co † May 29	567.3	620.1	3.23	46926
Fixed Interest † May 29	111.1	116.9	8.55	46920
US Small Co May 29	153.9	164.6	0.00	46927
Managed May 29	115.7	123.6	3.46	46924
Intl Bond May 29	120.9	127.5	10.07	47790
Japan May 29	61.45	65.50	4.86	47877
European May 29	92.87	99.47	1.69	47876
Nth American May 29	112.2	120.7	1.31	47878
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
American Exempt	54.16	56.35	1.68	41064
European Exempt	53.83	56.53	2.27	41065
Fixed Int Ex May 27	48.91	50.12	8.62	46594
Japan Exempt	37.61	39.12xd	0.72	41066
Managed Ex May 28	47.98	49.91	3.94	41067
SE Asia Exempt	83.96	88.16	2.28	41068
Sm Cos Expt May 27	38.63	40.57xd	3.14	41069
UK Eqty Ex May 27	47.07	49.43	3.57	41070
Phillips & Drew Fund Management Ltd				
Small Co's May 7	712.80	758.13xd	4.27	41138
Do Accum	832.15	886.26	4.27	41139
Int Expt May 28	192.77	196.90	1.72	41140
UK Index May 7	1244.98	1268.31xd	4.62	46945
Do Accum	1380.89	1406.88	4.62	46946
Convertible May 18	100.86	104.07xd	7.77	46938
World ex UK Index May 26	748.14	756.75	2.15	47887

Allied Dunbar Assurance Plc – Contd.

INSURANCES

OTHER UK UNIT TRUSTS

NEL Britannia Asce Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Specialist Funds				
Barings Convertibles	115.0	121.1	—	45279
Barings Eastern	123.9	130.4	—	45280
Barings Equity Income	100.3	105.6	—	45282
Barings European Growth	109.0	114.7	—	45281
Barings German Growth	106.8	112.4	—	45283
Barings Japan Growth	83.6	88.0	—	45284
Barings UK Smllr Cos	109.6	115.4	—	45285
Fidelity 1992 Euro Opps	102.5	107.9	—	45347
Fidelity American	115.2	121.3	—	45286
Fidelity Amer Sp Sits	138.4	145.7	—	45288
Fidelity Asian	118.9	125.2	—	45287
Fidelity European	95.4	100.4	—	45349

Life Association of Scotland

113 Dundas St, Edinburgh EH3 5EB 031-550 5000

Continued on next page

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	Bid Price	Offer Price	Yield Gross	City-line
Pearl Assurance (Unit Funds) Ltd				
Lynch Wood, Peterborough PE2 6FY				0733 470470
Property Dist. (Gross)	134.8	141.9	-	43235
Property Acc. (Gross)	256.9	270.4	-	43236
Equity (Gross)	929.5	978.4	-	43237
Managed (Gross)	642.3	676.1	-	43238
Property Acc. (Net)	122.9	129.3	-	43239
Equity (Net)	214.5	225.8	-	43240
Managed (Net)	196.7	207.1	-	43241
International (Net)	169.2	178.1	-	43242
Gilt & Fixed Interest	141.2	148.7	-	43243
Money Fund	139.0	146.4	-	43244
Mixed Fund (Cap)	123.5	130.0	-	46550
Mixed Fund (Acc)	127.5	134.3	-	46548
Adventurous Managed	96.8	101.9	-	41201
Cautious Managed	95.8	100.9	-	41202
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	700.3	737.2	-	43245
Ret Man (Series 2)	237.5	250.0	-	43246
Ret Cash	195.5	205.8	-	43247
Pens Mixed Fd (Cap)	138.2	145.5	-	46559
Pens Mixed Fd (Acc)	142.6	150.2	-	46558
Pens Stlg Fd (Cap)	103.3	108.8	-	46561
Pens Stlg Fd (Acc)	106.6	112.3	-	46560
Pegasus Assurance Ltd				
Broad Quay, Bristol BS1 4DJ				0272 230271
Life Funds				
Managed Aggressive	104.9	110.5	-	43306
Managed Balanced	102.7	108.2	-	43346
Managed Cautious	114.0	120.0	-	43350
Pension Funds				
Managed Aggressive	109.8	115.6	-	43307
Managed Balance	107.7	113.4	-	43347
Managed Cautious	118.8	125.0	-	43351

For Pioneer Mutual see Swiss Pioneer

	Bid Price	Offer Price	Yield Gross	City-line
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath				0444 458721
American	141.0	149.0	-	43285
Building Soc. Fd	222.0	234.0	-	43286
Balanced	287.0	303.0	-	43287
European	212.0	224.0	-	43289

	Bid Price	Offer Price	Yield Gross	City-line
Provident Mutual Life Assc. Assn. - Contd.				
Index Linked Gilt Init.	127.8	134.5	-	43489
Overseas Equity Ord	273.2	287.6	-	43490
Overseas Equity Init.	199.9	210.4	-	43491
Property Ord.	220.4	232.0	-	43492
Property Init.	161.3	169.8	-	43493
Fixed Interest Ord	229.9	242.0	-	43494
Fixed Interest Init.	168.2	177.1	-	43495
Deposit Ord.	186.0	195.8	-	43496
Deposit Init.	136.1	143.3	-	43497
Pension Funds				
Managed Ord	479.2	504.4	-	43498
Managed Init.	350.6	369.1	-	43499
Equity Ord	754.9	794.6	-	43500
Equity Init.	552.3	581.4	-	43501
Pen Ind Lnd Gilt Ord	188.6	198.5	-	43502
Pen Ind Lnd Gilt Init	144.1	151.7	-	43503
Overseas Equity Ord.	310.7	327.1	-	43504
Overseas Equity Init.	227.4	239.4	-	43505
Property Ord.	278.3	292.9	-	43506
Property Init.	203.6	214.3	-	43507
Fixed Interest Ord.	292.2	307.6	-	43508
Fixed Interest Init.	213.8	225.1	-	43509
Deposit Ord.	266.5	280.5	-	43510
Deposit Init.	195.0	205.3	-	43511
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH				071-405 9222
Pruford				
Managed May 27	270.4	281.7	-	43512
Prudential Corporate Pension Funds				
1 Stephen St, London W1P 2AP				071-548 3281
Prudential Managed Funds				
Discretionary May 27	£194.37	200.46	-	43539
Equity May 27	£227.10	234.90	-	43540
International May 27	£27.31	27.90	-	43541
Intl Bond May 27	£14.24	14.43	-	43542
Fixed Int. May 27	£105.79	106.97	-	43543
Index Linked May 27	£76.58	77.58	-	43544
Property May 27	£109.67	115.71	-	43545
Cash May 27	£39.5370	39.5370	-	43546
Pre-Linked Retirement Plan				
Managed May 26	474.7	494.5	-	43547

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

ISLE OF MAN (SIB RECOGNISED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

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	Bid Price	Offer Price	Yield Gross	City-line
Asset Global Funds Ltd (1200)				
Victory Hse, Prospect Hill, Douglas, IoM 0624 620097				
European Equity ... 5	14.257	14.257	15.29	–
UK Gilt ... 5	10.578	10.578	11.13	–
Intl Equity ... 5	14.497	14.497	15.57	–
International Bond ... 5	5.1762	5.1762xd	5.463	–
Ambrose Managed ... 5	0.9949	0.9949	1.0495	–
European Bond ... 5	1.0358	1.0358	1.0921	–
Sterling Cash Inc ... 5	0.9862	0.9862	1.0565	–
CMI Fund Managers (IoM)				
Clerical Medical Hse, Douglas, IoM 0624 625599				
High Income ... 5	0.4897	0.4897	0.5156	10.25
CMI Core Portfolio Fund				
UK ... 5	£– 1.0619	xd1.1377		–
USA ... 5	£– 1.0421	xd1.1048		–
Japan ... 5	£– 0.4809	xd0.5079		–
Equity & Law Intl Fund Mngrs Ltd				
Victory Hse, Prospect Hill, Douglas IoM 0624 677877				
Total Income Fd ... 5	97.12	97.35	102.46	10.2
Gartmore Fund Managers (IoM)				
PO Box 32, Douglas, IoM 0624 627610				
Intl Grth ... 5¼	497.7	497.7	533.4	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd				
PO Box 52 Athol St Douglas IoM 0624 661020				
LJ International ... 5¼	96.57	96.57xd	103.7	–
Mercury Fund Managers IoM Ltd				
11 Hill Street, Douglas IoM 0624 662255				
Merc IoM Fund ... 5	106.8	106.8xd	114.0	1.0
Merc Intl Bond ... 5	50.37	50.37xd	52.96	8.4
Sun Life Management (IoM) Ltd				
PO Box 178, Douglas, IoM 0624 622444				
Secure High Income ... 6	1.0617	1.0617	1.1382	7.91
Unibank Scandinavian Fund Ltd				
23 Bucks Road, Douglas, IoM 06246 26484				
Scandinavia Fd ... 5	–	138.93xd	148.15	1.0

ISLE OF MAN (REGULATED)(**)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Citibank (CI) Ltd "Citifunds"						
Short term Investment Funds						
Irish £ May 28			110.216			44841
Equity Funds						
Japan Equity May 28			$7.579			44845
US Em Hlth Jun 1			$22.212			44849
US Em Tech Jun 1			$19.132			44851
Chicare Jun 1			$34.083			44852
Bond Funds						
GNMA Bond Jun 1		$14.858	14.864			44855
HYB (A) Jun 1		$91.389.962				44856
EBC Trust Company (Jersey) Ltd						
EBC Amro Traded Currency Fund Ltd*						
Income		$15.18	15.645		2.75	44893
Capital		$23.62	24.338		5.50	44894
*Offer price includes 3% prelim. charge						
International Income Fund						
Eurobd Long Term*		$33.66	35.1900		4.80	44892
*Offer Price includes 3½% Initial Charge						
Equitilink International Mngt Ltd						
First Aust Prime Inc Inv Co Ltd NAV May 28 C$13.08xd						
First Aust Prime Inc Inv Co Ltd NAV May 28 US$10.86xd						
NAV Diluted to reflect exercise of all Wrnts C$12.71xd US$10.56xd						
Fidelity Investment (CI) Ltd						
Sterling American		£2.496	2.627			44979
Fleming Group						
Robert Fleming Management (Jersey) Ltd						
Deutschland Inv Co NAV			DM14.53			45896
Foreign & Colonial Mngmt (Jersey) Ltd						
Foreign & Colonial Reserve Asset Fd Ltd						
US$ Cash			$10.68			45005
Sterling Cash			£11.90			45007
US$ Bonds			$14.78			45008
Multicurrency Bonds			$19.69			45009
Sterling Bonds			£23.44			45010
D Mark Bonds			DM10.53			45011
Ecu Bonds			Ecu11.81			45013
UK Equities			£10.94			45014

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	Yield Gross	City-line
Alliance Capital				
International	$15.47	16.37	–	44669
International Class B	$15.31	15.31	–	42491
Quasar	$20.57	21.77	–	44671
Quasar Class B	$20.34	20.34	–	42628
Global Small Cap	$10.52	11.13	–	44673
Global Small Cap Class B	$10.41	10.41	–	42637
Canadian Fd	$5.00	5.29	–	44596
Alliance International Currency Reserves				
US$ Reserves May 20-26.0 0000079070 (4.32%)				
Global Asset Management – Contd.				
GAM Money Mkt US$	$101.43		–	45116
Do Sterling	£104.08		–	45117
Do Swiss Fr	SFr103.19		–	45118
Do Deutschmark	DM105.76		–	45119
Do Yen	Y10184		–	45120
GAM Multi-Mngr [illegible]	$122.01		–	47930
GAM Multi-Mngr [illegible]	$125.51		–	47931
GAM Multi-Mngr Trading	$128.09		–	43762
GAM Multi-Mngr Deferral	$118.80		–	44937
GAM Multi-Mngr [illegible]	$107.57		–	47125
Orbis Investment Management Ltd				
Orbis Global Eqty	$12.65	13.28	–	47945
Orbis Optimal Eqty	$17.09	17.96	–	47947
Orbis Leveraged Eqty	$17.56	18.56	–	47946
* Prices on May 28 Next Pricing June 4 Weekly Pricing				
Orbitex Bahamas Ltd				
Orbitex Nat Res Fd	C$7.9194	8.7113	–	45582
Orbitex Growth Fund	$6.7954	7.0309	–	45501
[illegible]	$4.6715	5.1384	–	47680
ORIENT Growth Fd				

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Testing times for $

The dollar is likely to come under further pressure this week after last week's downward shift. Wide interest rate differentials with Europe, and continued confusing signals about US economic recovery may hinder its progress.

UK clearing bank base lending rate 10 per cent from May 5, 1992

Consumer confidence shot up in May, but M2 growth fell short of the Federal Reserve's target range. Attention this week will focus on non-farm payroll data for May and the National Association of Purchasing Managers' index.

Economists are forecasting that around 103,000 new jobs were created in May, less than in April but greater than the average number of jobs created per month since the second quarter of last year.

After the Bank of Japan's aggressive buying of the Yen last week, traders said they would be watching closely to see how firm the Japanese currency goes over the next few weeks. Mr Jim O'Neill, head of research at Swiss Bank Corporation expects to see the Yen hit 124 against the dollar.

"The Bank of Japan appears to be sending a message loud and clear that it would like to see a stronger yen," he said.

According to Mr Gerard Lyons at DKB International, the Japanese Bank, trading partners have been pressurising Japan to reduce the size of its trade surplus. At the last G7 meeting in Washington the weakness of the yen was singled out as a hindrance. The Japanese government's apparent desire to strengthen the yen has probably been spurred by the prospect of the World Economic Summit in Munich next month.

Tomorrow the Danes go to the polls in a referendum on whether Denmark should ratify the Maastricht treaty on Emu. Traders said the result was enough in doubt to keep the EMS currencies on edge.

£ IN NEW YORK

May 29	Close	Previous Close
£ Spot	1.8280-1.8290	1.8045-1.8055
1 month	0.93-0.91pm	0.91-0.89pm
3 months	2.73-2.70pm	2.69-2.66pm
12 months	8.85-8.75pm	8.60-8.50pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

May 29	Bank of England Index	Morgan Guaranty Changes %
Sterling	92.9	−19.2
U.S Dollar	63.1	−14.5
Canadian Dollar	98.8	−2.7
Austrian Schilling	110.0	+12.0
Belgian Franc	111.3	−2.2
Danish Krone	109.5	+3.2
D-Mark	118.3	+24.5

STERLING INDEX

CURRENCY RATES

OTHER CURRENCIES

CHICAGO

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Fixed. Finance Houses Base Rate 10½ from June 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent; one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept 5,1991, Deposits withdrawn for cash 5 per cent.

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FINANCIAL TIMES STOCK INDICES

	May 29	May 28	May 27	May 26	May 22	May 21	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.56	89.58	89.56	89.54	89.58	89.46	89.58	85.11	127.4	49.18
Fixed Interest	105.62	105.53	105.48	105.43	105.39	105.16	105.62	97.15	105.62	50.53
Ordinary	2114.1	2109.2	2120.4	2133.4	2148.7	2141.9	2149.7	1851.4	2149.7	49.4
Gold Mines	108.3	110.0	110.3	109.9	111.9	112.6	160.6	106.8	734.7	43.5
FT Act All-Share	1311.79	1307.68	1310.67	1314.00	1319.18	1314.63	1328.36	987.46	1326.36	61.92
FT-SE 100	2707.6	2694.2	2698.6	2704.6	2715.0	2702.0	2737.8	2382.7	2737.8	986.9
FT-SE Eurotrack 100	1199.58	1195.22†	1194.56	1198.37	1197.48	1187.57	1199.58	1078.19	1199.58	900.45
FT-SE Eurotrack 200	1245.26	1240.69	1242.26	1247.63	1246.12	1239.19	1248.79	1120.52	1248.79	938.62

† Partial.

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 29 1992 US Dollar Index	% chg ($) since 31/12/91	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/91	Gross Div. Yield	THURSDAY MAY 28 1992 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1992 High	1992 Low	Year ago (approx)
Australia (69)	152.12	+0.8	123.31	122.79	127.09	133.56	+1.2	4.12	152.20	124.91	124.59	128.71	133.37	153.68	140.94	138.85
Austria (19)	170.94	+2.6	138.56	137.99	142.82	142.89	+8.9	2.05	168.46	138.25	137.90	142.45	142.43	186.70	162.48	199.85
Belgium (46)	143.63	−0.5	116.43	115.93	120.00	117.07	+5.2	5.20	141.70	116.29	115.99	119.82	117.07	148.19	135.87	133.37
Canada (115)	126.77	−7.0	102.76	102.32	105.90	110.57	−3.1	3.31	126.46	103.78	103.51	106.93	110.25	142.12	125.60	141.24
Denmark (35)	253.64	−5.1	205.60	204.74	211.91	213.28	−0.6	1.72	243.72	200.02	199.51	206.10	207.92	273.94	226.81	239.03
Finland (15)	79.73	+2.2	64.63	64.36	66.61	72.93	+7.7	1.94	78.48	64.40	64.24	66.36	72.98	89.80	73.64	114.23
France (104)	166.70	+10.8	135.13	134.55	139.26	141.07	+15.3	3.33	163.34	134.06	133.70	138.11	139.90	166.75	148.06	136.87
Germany (65)	124.42	+6.0	100.86	100.45	103.95	103.95	+12.3	2.23	122.47	100.51	100.26	103.56	103.56	124.92	114.67	114.52
Hong Kong (55)	254.67	+44.4	206.44	205.57	212.78	253.20	+43.8	3.24	250.28	205.40	204.87	211.65	248.96	254.67	176.36	153.87
Ireland (16)	158.43	−5.6	128.42	127.89	132.36	134.12	−0.9	4.05	155.75	127.83	127.50	131.71	133.45	173.71	151.78	154.44
Italy (78)	72.50	−3.8	58.77	58.52	60.57	65.50	+1.3	3.23	71.32	58.53	58.38	60.30	65.22	80.86	68.39	80.84
Japan (473)	105.90	−22.0	85.84	85.48	88.49	85.48	−20.3	0.99	102.73	84.31	84.09	86.88	84.09	140.96	88.70	138.68
Malaysia (69)	236.47	+10.4	191.68	190.87	197.56	228.59	+1.8	2.70	238.07	195.38	194.87	201.31	231.15	250.18	212.49	242.13
Mexico (18)	1640.79	+17.9	1330.03	1324.47	1370.84	5590.86	+20.9	1.02	1621.54	1330.79	1327.38	1371.20	5521.72	1789.77	1378.91	1039.40
Netherland (25)	161.63	+5.9	131.02	130.47	135.04	133.41	+12.0	4.19	159.96	131.28	130.94	135.27	133.71	161.74	147.88	138.92
New Zealand (14)	47.12	+0.3	38.19	38.04	39.37	46.71	+1.2	5.48	46.80	38.41	38.31	39.57	46.30	48.52	42.01	50.78
Norway (23)	188.29	+5.3	152.63	151.99	157.31	159.98	+10.5	1.58	185.67	152.38	151.99	157.01	159.84	192.95	161.26	203.36
Singapore (38)	228.42	+4.0	185.16	184.39	190.84	171.37	+4.5	1.85	227.77	186.93	186.45	192.60	171.77	228.43	192.76	205.19
South Africa (61)	248.88	+0.0	201.74	200.89	207.93	188.27	+8.8	2.69	249.24	204.55	204.02	210.76	188.01	263.60	203.16	217.71
Spain (50)	161.32	+3.1	130.76	130.22	134.77	122.27	+6.7	4.96	157.58	129.32	128.99	133.25	121.17	161.32	146.86	160.07
Sweden (27)	198.63	+9.7	161.01	160.34	165.95	170.10	+14.4	2.60	194.37	159.52	159.11	164.37	168.55	199.93	173.09	190.33
Switzerland (60)	107.55	+7.1	87.18	86.82	89.86	97.18	+15.3	2.20	105.87	86.88	86.67	89.53	96.84	107.55	95.99	95.54
United Kingdom (228)	199.11	+7.4	161.40	160.71	166.34	161.40	+9.9	4.62	195.93	160.80	160.37	165.67	160.80	200.07	165.85	169.65
USA (522)	169.47	−0.2	137.37	136.81	141.60	169.47	−0.2	2.94	169.85	139.40	139.06	143.64	169.85	171.66	160.92	157.75
Europe (791)	156.88	+6.2	127.17	126.64	131.08	129.79	+10.5	3.78	154.24	126.59	126.28	130.44	129.21	156.88	139.31	139.45
Nordic (100)	187.01	+1.8	151.59	150.96	156.24	153.20	+6.5	2.12	181.85	149.24	148.86	153.78	150.99	188.52	169.66	182.98
Pacific Basin (718)	112.29	−18.1	91.02	90.65	93.82	91.72	−16.5	1.36	109.31	89.71	89.48	92.44	90.37	141.97	94.40	138.90
Euro - Pacific (1509)	130.35	−8.0	105.66	105.21	108.90	107.48	−5.4	2.52	127.50	104.64	104.36	107.81	106.42	145.21	113.80	139.47
North America (637)	166.79	−0.6	135.20	134.65	139.38	165.46	−0.4	2.98	167.13	137.17	136.83	141.36	165.80	169.69	158.70	156.64
Europe Ex. UK (563)	131.77	+5.3	106.81	106.39	110.11	111.55	+10.9	3.14	129.47	106.25	106.00	109.50	110.98	131.77	121.81	120.85
Pacific Ex. Japan (245)	175.31	+16.8	142.11	141.53	146.48	155.87	+15.8	3.47	174.15	142.92	142.58	147.28	154.90	175.31	149.00	140.52
World Ex. US (1703)	132.52	−7.6	107.42	106.98	110.72	109.79	−4.9	2.53	129.79	106.51	106.25	109.75	108.75	146.91	116.45	140.83
World Ex. UK (1997)	138.79	−6.2	112.50	112.04	115.96	124.85	−4.5	2.44	137.26	112.65	112.37	116.08	124.23	150.58	127.21	143.15
World Ex. So. Af. (2164)	143.29	−4.9	116.15	115.67	119.72	127.71	−3.2	2.70	141.61	116.22	115.93	119.76	127.09	153.06	130.04	145.04
World Ex. Japan (1752)	165.40	+2.8	134.07	133.52	138.21	152.82	+4.5	3.26	164.51	135.01	134.68	139.13	152.67	165.40	153.20	150.45
The World Index (2225)	143.98	−4.8	116.71	116.23	120.30	128.25	−3.0	2.70	142.32	116.80	116.50	120.35	127.64	153.70	130.66	145.48

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes during the week ending 29/5/92: Additions: Hulvudstaden A (Sweden), SKF A (Sweden) and Tenaga Nasional (Malaysia).
Deletion: Hufvudstaden B Free (Sweden). Belgian market closed May 29.

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

هكذا من الأصل

AMERICANS

	Notes	Price £	Wk% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs		38⅝xd	2.4	$1.20	FeMyAuNv	6.4	1503
Allegheny & W		305p	0.7	30c	–	–	–
Amdahl		913p	–2.8	10c	NvMrJeAu	31.1	–
Amer Cyanamid		33	3.0	$1.65	MrJeSeDe	4.3	–
Amer Express		12½xd	–2	$1.00	FeMyAuNv	31.3	1594
Amer T & T		23⅛xd	–1.3	$1.32	FeMyAuNv	27.3	1597
Ameritech		34½	–1.1	$3.52	FeMyAuNv	28.3	–
BankAmerica		25¼xd	–3.8	$1.30	FeJeSeDe	19.5	1744
Bankers NY		32xd	–4	$1.52	ApJyOcJa	27.12	1745
Bell Atlantic		24	–1.0	$2.60	FeMyAuNv	4.7	–
BellSouth		27	–2	$2.76	FeMyAuNv	6.4	–
Bethlehem Steel		7⅝xd	–3.2	–	MrJeSeDe	8.2	1821
Bowater		1218pxd	2.8	$1.20	OcJaApJy	9.3	1884
CPC	h	23⅞	2.1	$1.28	JaApJyOc	30.3	2263
Cadiz Land Inc		249p	–	–	–	–	–
California Engy		850p	–	–	–	–	–
Campbell Soup		18⅞	1.0	70c	OcJaApJy	24.12	2050
Chase Manhattan		15½xd	–8.1	$1.20	FeMyAuNv	24.4	2109
Chrysler		9⅞xd	–6	60c	ApJyOcDe	11.3	2135
Citicorp		10⅛xd	–8.8	–	–	23.10	2141
Colgate-Palm		28⅝xd	0.7	$1.08	FeMyAuNv	22.4	2184
Cont'l Bank		996p	–3	80c	DeMrJeSe	31.5	–
Dana		22⅝xd	–5	$1.60	MrJeSeDe	28.5	2306
Data General		471p	3.5	–	–	–	–
Dial		20xd	–3	$1.12	JaApJyOc	27.5	2778
Dun & Brad		29½	1.7	$2.25	MrJeSeDe	13.2	–
Eaton		45	1.7	$2.20	FeMyAuNv	22	2410
Echlin		9¼xd	–	70c	JaApJyOc	24	3048
FPL		19⅛xd	–1.9	$2.44	MrJeSeDe	28.5	–
Fluor		24½xd	4.8	40c	JaApJyOc	19.3	2609
Ford Motor		24¼	0.5	$1.60	MrJeSeDe	25.4	2615
Gen Elect		42¼xd	0.3	$2.20	JaApJyOc	4.3	2676
General Host		400p	0.4	34c	–	13.12	–
Gillette		27⅛xd	3.1	72c	MrJeSeDe	29.1	2685
Hasbro		15⅞	6.0	20c	JaApJyOc	1.6	–
Honeywell		40⅝xd	3.2	$1.65	MrJeSeDe	28.5	2919
Houston Inds		24	1.6	$2.96	MrJeSeDe	18.11	–
IBM		50xd	0.1	$4.84	MrJeSeDe	8.5	2985
Ingersoll-Rand		32⅜xd	–2.0	$1.32	MrJeSeDe	14.5	2979
Lockheed		24⅞	2.1	$2.12	MrJeSeDe	18.2	–
Lowe's		2408p	1.6	56c	JaApJyOc	11.7	–
Merrill Lynch		25⅛xd	–2.4	$1.00	FeMyAuNv	30.4	3351
Morgan (JP)		30⅞xd	–4	$2.18	JaApJyOc	18.3	3418
Morris (Philip)		42⅛xd	–3	$2.10	JaApJyOc	11.12	5181
NYNEX		42¼	–9	$4.64	FeMyAuNv	27.5	4740

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividend paid	Last xd	City line
Rugby		217	–6.2	6.46	1.9	Nov May	23.3	[illegible]
Russell (A)		96	–	2.16	1.2	Nov May	27.4	[illegible]
SWP		6½	–	0.5	1.5	Oct	30.9	[illegible]
Sandell		28	–7.1	–	–	Apr	9.7	[illegible]
St Gobain FFr		699¾	–5	Q21½%	♦	Jul	26.7	[illegible]
Sharpe & Fisher		98	–1.0	4.6	–	Nov Jun	27.4	[illegible]
Shaw (A)		66	–	1.3	♦	Aug Jan	9.12	[illegible]
Sheffield Insuls		101	1.0	5.4	0.5	May Nov	6.4	[illegible]
Spring Ram		174	–2.8	6.29	2.47	Dec Jun	27.4	[illegible]
Stannin		13xd	–7.7	4.8	♦	Jul Nov	11.5	[illegible]
Steetley		487	–8	14.8	–	Dec Jun	14.10	[illegible]
Tarmac		137	–7.4	6.5	0.4	Jul Dec	27.4	[illegible]
Tilon	†	170xd	–	3.25	3.4	Jul Feb	11.5	[illegible]
Travis Perkins		290xd	–	5.8	0.7	Nov Jul	11.5	[illegible]
Tudor		91	–	0.5	0.6	Jul Dec	15.4	[illegible]
Unigroup		18	–5.3	–	–	–	8.86	[illegible]
Ward Group	‡	69p	–	7.2	2.3	Jan Nov	14.10	[illegible]
Wickes		92	–7.1	–	–	–	8'90	[illegible]
Wilshaw		16	–12.3	0.3	2.0	Dec Mar	25.11	[illegible]
Wolseley		437	–3.1	12.1	1.8	Jul Jan	9.12	[illegible]
Worcester	♦	223	–	4.21	2.3	Nov May	6.4	[illegible]

BUSINESS SERVICES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividend paid	Last xd	City line
ADT $		436	–2.2	–	–	–	–	[illegible]
ASB Group		7	–	–	–	–	–	[illegible]
ATA Select		12	9.1	–	–	–	24.9	[illegible]
Adam & Harvey	W	215	–1.4	18.0	5.9	Jan Sep	30.12	[illegible]
Air London	†	110	–	3.2	2.9	Dec Jun	27.4	[illegible]
African Lakes		67xd	–	2.8	2.6	Jan	11.5	[illegible]
Auto'ted Sec		137	–2.8	4.9	2.9	Jan Dec	27.4	[illegible]
BET		143	–10.1	18.25	0.8	Jan Aug	25.11	[illegible]
BNB Res		64	–4.5	4.9	1.7	Nov May	27.4	[illegible]
BPP		288	–	6.8	2.3	Nov May	23.3	[illegible]
Barbour Index	†	275	–1.1	6.6	2.2	Oct Apr	27.1	[illegible]
Boustead		28xd	–1.9	0.7	0.8	Jan Jul	11.5	[illegible]
BrR Data Mangt	R	161	–1.3	4.0	2.7	–	–	[illegible]
Brooks Service		91	–	4.05	0.3	Nov May	6.4	[illegible]
Burns-Anderson		5	–9.1	–	–	–	12'89	[illegible]
CRT	fa	146	1.4	1.5	3.1	Oct Mar	10.2	[illegible]
Capita		422	1.9	5.4	2.7	Oct May	9.3	[illegible]
Caslot		28	–	8.5	♦	Oct Mar	9.12	[illegible]
Chiltern Capital		36½	–	–	–	–	–	[illegible]

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT TRUSTS - Cont.

	Notes	Price	W'k's ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
Scot National Inc.		97	−5	8.05	ApJyOcJa	184.8	24.2	3981
Cap.		32	−3.0	–	–	20.4	–	3980
Stepped Pf.	†	141	0.4	8.25	Sep Mar	45.8	24.2	3982
Zero Div Pf.		184½	−3	–	–	117.8	–	3984
Warrants		7	–	–	–	0.88	–	3983
Scot Value		63½	1.6	1.8	Jan Jul	14.9	9.12	2788
Sec Alliance	†	1261	0.2	35.8	Apr Oct	242.1	24.2	3974
Second Market	s	243	0.4	1.5	May	243.3	6.4	3976
Sec Tst Scot		74xd	–	3.25	Jul Dec	237.8	11.5	3977
Select Assets		97	−1.0	0.83	Apr	23.3	24.2	3985
Eq Ind Ser I		123	–	4.25	JaApJuOc	21.7	6.4	4005
Eq Ind Ser II		123	–	4.25	JaApJuOc	20.1	6.4	5005
Shires		247	1.6	18.4	ApJyOcJa	62.8	9.3	4814
11pc Cv Ln '03/04		£115½	0.9	Q11%	Sep Mar	28.4	24.2	4812
Siam Select		78	–	1.8	Jul	11.7	–	1387
Warrants		15	–	–	–	0.45	–	1379
Smaller Cos		94	–	2.5	Apr Oct	12.8	24.2	3898
Warrants		19	–	–	–	0.57	–	3899
Sphere Inc	N	14½	−6.5	3.1	MyAuNvFe	17.6	27.4	4278
Zero Div Pf.		77	−8	–	–	81.7	–	5227
Warrants		6¼	–	–	–	0.09	–	5878
Stratton		188	–	1.7	Jul	21.2	3.6	4128
Sumit		58	–	1.25	May	3.58	8.3	4132
TR City of Lon	M	126¾	0.8	4.76	FeMyAuNv	242.4	6.4	4271
TR Euro Growth	s	88	−3.4	1.0	Oct	31.6	15.9	4080
Ptg Sub	s	58	–	1.8	Oct	1.81	18.9	–
TR Far East Inc	M	95xd	–	4.4	ApJyOcJa	44.1	11.5	4288
Warrants		28	–	–	–	1.85	–	–
TR High Inc		189	–	6.8	MrJyOcJa	23.8	6.4	2887
Sub	g	30	–	1.5	Jul	0.88	1.7	2836
TR Pacific	s	93½	−2.6	0.25	Apr	62.5	9.3	4281
TR Prop.		24	−2.0	1.45	Jan Jul	68.3	9.12	4282
TR Smaller		146½	−1.7	3.7	Mar Sep	281.1	10.2	4285
TR Technology	M	34	−2.9	1.75	Aug	15.8	15.7	4282
Stepped Pf		101¼xd	0.5	8.51	Dec Jun	44.8	11.5	4989

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

	Notes	Price	W'k's ch'nge	Div net	Div cov	Dividend paid	Last xd	City line
Ansbacher (H)		34	17.2	0.81	–	May	23.3	1684
Barings 8pc Cm 2nd Prf.		98½	0.5	8%	–	June Dec	11.11	–
9¼pc Non-Cum Prf.		120½	1.3	9¼%	–	Jan Jul	9.12	1421
Brown Shipley		128	−6.2	8.9	–	Jan Aug	1.7	1883
Close Bros	†	288	−4	8.6	2.5	Apr Oct	23.3	2165
Hambros	†	281	0.7	12.6	1.9	Jan Aug	9.12	2812
7½pc Cv Pf.		118	−9	7½%	–	Apr Oct	24.2	4388
Joseph (L)		338	–	15.65	–	Jan Sep	30.12	3887
Kleinwort Benson		388	3.0	18.8	0.9	May Oct	9.3	3102
Rea Bros		35	–	0.5	0.1	May Oct	27.4	3785
Schroders		1338	1.7	18.8	4.8	Nov May	23.3	3887
N/V		1138	2.1	18.8	4.8	May Nov	23.3	3841
Singer & Fried		46	−7.1	2.5	1.8	Nov May	23.3	4828
Warburg (SG)		572	−4.8	18.8	♦	Jul Dec	25.11	4425
8pc Cv Pf.		184	−3.0	8%	–	Mar Sep	24.2	4426
Wintrust		220	–	9.1	3.6	Sep Mar	24.2	4524

METALS & METAL FORMING

	Notes	Price	W'k's ch'nge	Div net	Div cov.	Dividend paid	Last xd	City line
ASW		181	1.9	9.8	0.6	May Nov	23.3	5054
Apollo Metals		138	3.0	3.45	2.8	Jan Jul	9.12	1408
Ash & Lacy		188	1.8	8.4	2.0	Nov May	6.4	1665
Barrett (H)	‡	28	−9.1	2.8	0.4	Feb	20.5	1767
Billam (J)		128	−2.3	4.28	4.1	Oct May	23.3	1828
Brit Steel		79½	−2.5	8.75	–	Aug Jan	25.11	3511
CI		30xd	3.1	2.65	1.3	Jul Jan	11.5	2136
Castings		180	11.1	4.87	♦	Jan Aug	9.12	2878
Chamber & Hill		138	−3.7	8.8	♦	Jul Dec	25.11	2168
Cohen (A)		408	3.8	23.1	0.6	Feb Aug	9.12	2181
Cook (Wm)		284	−4	10.8	♦	Jan Oct	25.11	2232
Cooper (F)		65	–	4.8	0.8	Jul Feb	30.12	2236
Cronite	♦	45	–	–	–	–	1'91	2286

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

‡ Indicated dividend: cover relates to previous dividend. ‖ Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other [illegible] T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £[illegible] a year for each security shown, subject to the Editor's discretion

FT Share Service

The following change has been made to the FT Share Information Service:

Addition: Capital Industries (Section: Packaging, Paper & Printing).

London Share Prices

Real time share prices are available by calling FT Cityline on 0891 43 + the four digit code listed after the share price on this page. Calls charged at 36p/min cheap rate and 48p/ min at all other times.

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4:00 pm prices May 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	12¾	AAR Corp	0.48	3.7	15	254	13	12⅞	12⅞	-⅛
28	20⅝	A L Labs A	0.18	0.8	94	1970	23⅞	23⅛	23½	+⅛
68¾	58	AMP Inc	1.52	2.4	25	748	62⅝	61⅞	62⅛	
80¼	60⅞	AMR				1067544	63½	62	63¼	+1⅝
2⅞	1⅛	ARX			2	6	1⅛	1⅛	1⅛	
53½	40¾	ASA x	2.00	4.5	13	403	45⅛	44⅝	44⅝	-⅞
68⅛	58¾	Abbott Lab	1.20	1.8	25	6574	68	66⅞	66⅝	-⅞
13⅞	12	Abitibi Pr	0.42	3.2	8	180	13⅛	12⅞	13⅛	+½
11⅝	10⅛	ACM Gvt In	0.96	8.7		1220	11	10⅞	11	
10⅜	9⅛	ACM GvOpp	0.80	8.4		38	9½	9½	9½	+⅛
9½	8½	ACM Gvt Sp	0.80	8.9		297	9⅛	9	9	-⅛
11¼	10⅛	ACM Gn Se x	0.96	9.0		116	10¾	10⅝	10⅝	-⅛
9⅝	8⅝	ACM Man	0.85	8.9		214	u9⅝	9½	9⅝	
12⅞	10⅝	ACM Managd	1.08	9.3		64	11¾	11½	11⅝	
11¾	6¼	Acme Cleve	0.40	6.0	22	95	6¾	6½	6⅝	
6¼	4½	Acme Elect			4	11	4⅞	4⅞	4⅞	
33¼	18⅞	Acuson			14	750	22¼	22	22	-¼
19½	18⅛	Adams Expr	0.48	2.6	0	15	18⅞	18⅞	18⅞	
49⅛	39	Ad Micro	3.00	7.4		137	40½	40	40½	+¼
21½	14⅝	Ad Micro P	3.00	19.0		63981	15⅞	15⅝	15¾	
9⅛	5	Advest Grp	0.16	2.4	67	283	6⅞	6⅝	6⅞	+⅛
71¾	66	Aegon ADR	1.50	2.2	6	16	68	67½	67½	+¼
47	38⅛	Aetna Lf	2.76	6.5		62978	42⅞	41⅞	42⅛	-⅜
12	8⅞	Ahll A	0.24	2.3	11	256	10⅞	10½	10½	-⅛
32⅞	24	Aflac	0.44	1.5	14	336	28⅞	28⅝	28⅞	-⅛
19⅞	15⅛	Ahmanson	0.88	5.0	8	943	17⅞	17½	17½	-⅜
22½	7⅛	Aileen Inc			7	173	8⅛	d7½	7½	-½
49½	36½	Air Pr Chm	0.80	1.7	20	1738	47⅛	46	47⅛	+1⅛
28¾	14	Airbns Frt	0.30	1.9	12	1161	15¾	15⅜	15¾	+⅜

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Quote	Close	Ch'ge
82¼	65½	Xerox	3.00	4.0		181885	75¼	74½		75	−⅜
53½	50½	Xerox4.125				z100	53	53		53	
28½	24⅞	Xtra 1.94	1.94	7.1		88	27¼	27		27¼	−⅛
37	28½	Xtra Corp	0.80	2.3	12	74	34½	34		34¼	+⅛
27	25¼	Yankee Egy	1.68	6.2	12	89	u27	26¾		26⅞	+¼
1½	½	Zapata			88	218	1¼	1⅛		1¼	−⅛
11⅛	8⅜	ZenithElec				41606	8¾	8		8¾	+⅛
18⅜	14½	Zenith Nat	1.00	5.6	8	554	17⅞	17⅝		17⅞	−⅛
7⅛	6	Zenix Inc x	0.86	12.8		147	6⅞	6⅝		6⅝	
13¾	11	Zero Corp	0.40	3.5	18	245	11½	11⅛		11⅜	+⅛
35	30½	Zurn Ind	0.88	2.9	33	329	31	d30½		30⅝	−⅜
14⅛	12⅝	Zweig Fund	1.16	9.0		177	13	12⅞		12⅞	
11	9⅞	Zweig Totl	1.00	9.7		1435	10⅜	10⅜		10⅜	−⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices May 29

NASDAQ NATIONAL MARKET

4:00 pm prices May 29

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		28	911	24¼	23½	24	+¼
Xoma Corp		12	3539	20½	19½	20¼	+½
Yellow Fr	0.94	23	144	29¼	28½	29¼	+½
York Rsch		63	1174	6½	6⅛	6⅜	+⅛
ZionsUtah	1.44	10	83	52½	51	52¼	

MONDAY INTERVIEW

Exhibitor of good connections

Richard Breeden, chairman of the US Securities and Exchange Commission, talks to **Martin Dickson** and **Patrick Harverson**

On the wall of Mr Richard Breeden's office in Washington DC, the chairman of the Securities and Exchange Commission has hung various photographs of himself in the company of President George Bush: conferring intently over a meal; at a black tie gathering; and so on.

Nothing unusual in that, you may think: offices the world over are hung with vanity pictures of their occupants consorting with the rich, powerful or famous.

Yes, but...this is just the beginning. Amid the blinking computer terminals and clocks showing the time around the globe, a good part of the wall space in the SEC chairman's office is devoted to images of Mr Bush, with or without Mr Breeden. Here is the president playing a homely game of horseshoes; there he is looking windswept and nautical; and here he is being sworn in to office. Several photos are the size of oil paintings.

Mr Breeden's admiration for Mr Bush is hardly surprising: he was plucked to head the SEC from within the Bush White House and served on Mr Bush's vice-presidential staff in the early 1980s.

But the display also sends a forceful message, intentional or not, that Mr Breeden has good connections in the most important domestic residence in the land. And for an SEC chairman, that is a position unusually close to the centre of power – bringing both advantages and disadvantages.

The connections were no doubt helpful back in 1989 when, at the age of 39 and with no direct experience of working inside a securities company, Mr Breeden was named to head the SEC, the government agency that oversees Wall Street.

In the two and a half years since then, he has stamped his own mark clearly on the commission, through an energetic spate of regulatory initiatives. These have been widely praised, but have also prompted accusations of ruthless empire-building from other parts of the Washington bureaucracy.

The past week and a half have produced a particular flurry of activity: Mr Breeden has unveiled proposals for the first significant shake-up of the fast-growing US mutual fund industry in half a century – a package that could, among other things, make it easier for foreign funds to offer their products in America.

Wearing his hat as "Wall Street's top cop", he has also announced swingeing fines and restitution, totalling $290m, which Salomon Brothers will have to pay because of its breach last year of Treasury bond auction rules.

The events highlight two of the most important features of the Breeden regime. One is a series of moves to rid the securities industry of needless regulation and encourage financial innovation.

Sipping from a coffee mug bearing an "Office of the Vice-President" seal, Mr Breeden says: "I have sought to promote in as many ways as possible better opportunities to raise capital at lower cost and to identify and remove artificial barriers...to the use of security markets for primary capital raising."

He speaks in a rather formal, guarded manner, like an ambassador on parade, and displays nothing of his reputation for abrasive and overbearing behaviour.

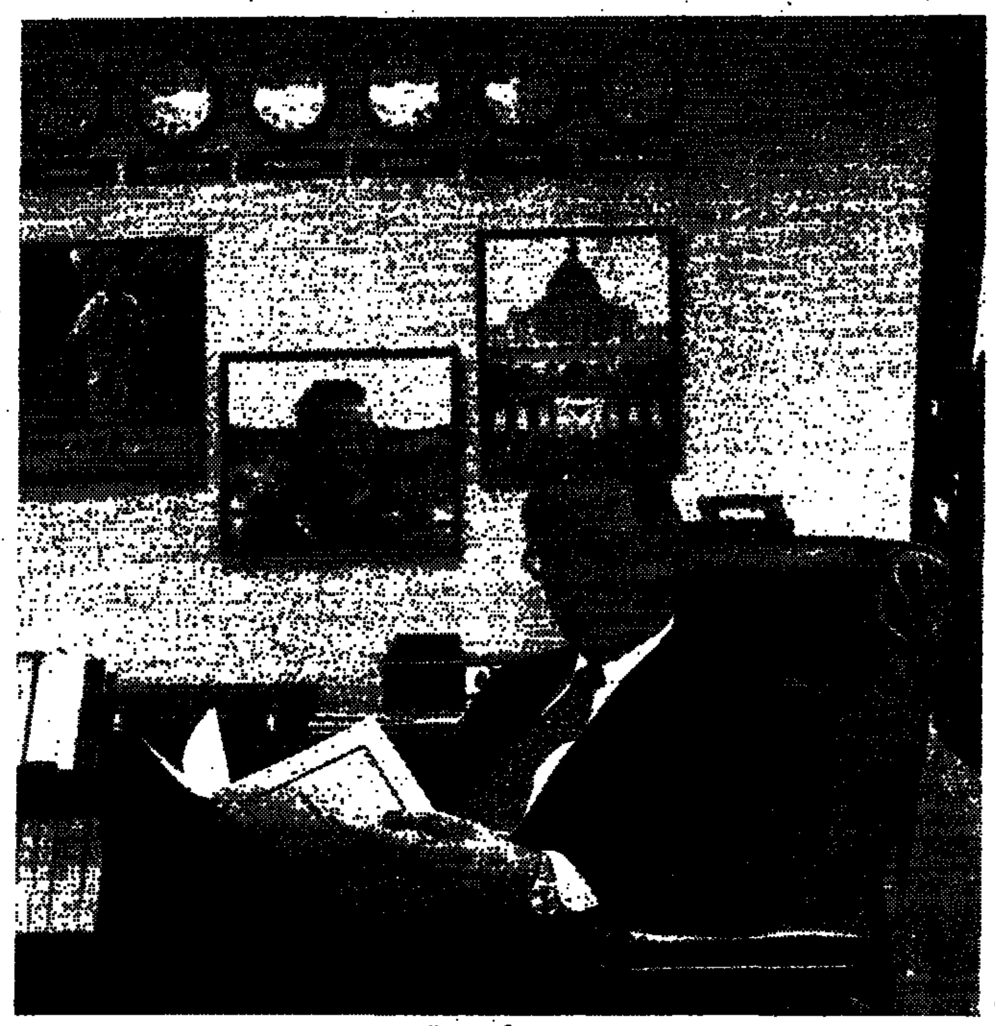
Another feature of the Breeden SEC is its toughness in enforcing the rulebook, following the wild financial excesses of the 1980s. The Salomon settlement, for example, was higher than Wall Street had been expecting.

It was Mr Breeden who wrote an unusually blunt letter in 1990 to the judge sentencing Mr Michael Milken, the former junk bond king, for securities crimes, arguing that he deserved a "substantial term of incarceration". Mr Breeden says he thinks any other SEC chairman would have done the same, but adds: "I have a very strong personal view that just because crime is committed by someone who is dressed more nicely, it does not justify turning your back on it."

A securities lawyer by background, who dresses in the conservative, pin-striped manner of his ilk, Mr Breeden made his name in Washington as President Bush's top aide in the bail-out of the savings and loans industry.

In what was arguably the worst scandal of the 1980s, large parts of the sector were made insolvent by crookery and crazy lending practices. The federal government, which insures deposits placed with the S&Ls, as it does with US banks, had to pick up the tab.

Mr Breeden says the principal culprit of both the S&L disaster and the current weakness of the US banking system is this deposit insurance system: "I do not believe in asking the taxpayers of the US to stand behind every dumb decision made by a lending officer. That ought to be the bank's and the shareholders' responsibility."



'Markets don't go to sleep'

He points out that there is no such safety net for the US securities industry, which remains a world leader in both size and innovative techniques. Market disciplines, he says, are stronger and more omnipresent than any number of rule-setting bureaucrats and bank examiners. "Markets don't go to sleep."

PERSONAL FILE

1949 Born Long Island, New York. Educated Stanford University and Harvard Law School.
1972 Teaching at University of Miami School of Law.
1976 Associate with law firms Cravath, Swain & Moore, and Willkie, Farr & Gallagher.
1982 Deputy counsel to Vice-President Bush and staff director of President Reagan's Task Group on Regulation of Financial Services.
1985 Partner with law firm Baker & Botts; assistant for issues analysis in the Bush White House.
1989 Chairman, SEC.

The US securities markets have, however, been displaying a tendency to fragment, with the once dominant New York Stock Exchange giving up more and more of the pie to electronic dealer-driven markets or computerised, intermediary free networks. Despite the protestations of the New York exchange, Mr Breeden's SEC has given a host of innovative high-tech trading systems the regulatory green light.

He is involved in another public dispute with the New York exchange, which wants the SEC to relax its strict financial disclosure requirements for foreign companies in the hope this will encourage more of them to list in the US.

Mr Breeden says he is anxious to make the US securities market more accessible to foreign companies, and hints that there is a little room for manoeuvre on disclosure requirements with the New York exchange. But he rejects the argument that "if a given regulatory system is good enough for some country it ought to be good enough for the US. That's just a race to the bottom. That's what we would call competition in laxity."

Much of the argument centres on German companies, which have a radically different accounting system from the US, and one, says Mr Breeden, which "denies the basic proposition that public investors have a right to know how the company is doing".

US investors, he says, must be given an "information bridge" which enables them to compare the performance of US and foreign companies.

He finds it strange that Volvo of Sweden, Honda of Japan and Fiat of Italy, all of which have American listings, can comply with the US standards "yet we're told we have to throw our whole system out of the window to accommodate Mercedes-Benz. Well, that is not likely to happen."

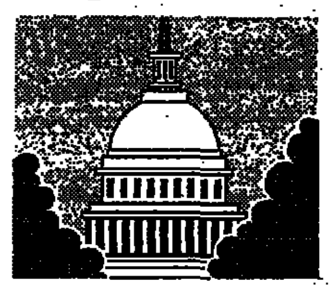
His achievements in putting more muscle into the SEC have led him into clashes with other regulatory agencies – for example, with the Commodity Futures Trading Commission (over who should regulate stock index futures) and the Federal Reserve (over bank accounting methods). Such fights are only natural in an era where financial markets are converging and, therefore, so are the bureaucracies that police them.

More serious are accusations, including some from current and former SEC commissioners, that Mr Breeden has recently been politicising the institution – which has always been carefully aloof from the party fray – by tilting policies towards the White House line. His critics paint a portrait of a man consumed by political ambition, aiming for a seat in the cabinet.

Mr Breeden has repeatedly denied compromising the agency's independence, while the "politically ambitious" label infuriates him. He would prefer to be seen as a lawyer from the private sector doing his bit of public service.

But it is easy to see how such ideas multiply when you have the president of the United States as an office pin-up. And in any case, what is so bad about ambition?

The new politics of dependency



MICHAEL PROWSE on America

The notion that governments should seek to mould the behaviour of citizens is somewhat chilling. It conjures up images of Aldous Huxley's Brave New World, where the social and genetic conditioning was so absolute that even the subhuman "deltas" were perfectly content with their menial lot. Yet this seems to be the direction in which US social policy is moving. Many poverty experts argue that the obstacles to self-advancement in the inner city and elsewhere are internal rather than external: psychological rather than economic.

Modern society may be moving into a third phase. In the first pre-capitalist phase, only an aristocratic elite enjoyed high living standards. The industrial revolution ushered in a second "progressive" phase during which the mass of working people improved themselves, partly through the opportunities created by free markets and partly by pressing successfully for a host of social reforms, such as government pensions, healthcare and jobless benefits. In this phase, reformers of all political stripes made a critical assumption: the poor are no different from anybody else and will respond readily to market incentives and government programmes.

Yet entrenched poverty in an economy as wealthy and open as the US perhaps indicates the start of a third social phase. Here, the bulk of the population lives comfortably because obstacles to personal advancement, while real, are minor by historical standards. However, a significant minority – most visible as a disaffected urban underclass – is dependent: either unable or unwilling to grasp new opportunities. Poverty experts see policies aimed explicitly at changing behaviour as the only way to energise the passive, non-working poor and hence propel them into the social mainstream.

Mr Lawrence Mead, an academic at New York University, is one of the most articulate exponents of such theories, known as "the new paternalism". In a recently published book*, he argues that conventional social policies fail because they take for granted people's competence to respond positively to incentives. By competence, he means all the qualities that allow a person to get ahead economically – not only intelligence but foresight, energy, discipline, and the ability to sacrifice for the future. He believes the challenge is no longer to alter the economic or social structure of society, but to change the personal psychology of dysfunctional adults.

Controversially, Mr Mead blames poverty squarely on lack of work effort, not low wages. If the poor worked as hard as the middle classes they would not be poor. On his figures, only 16 per cent of the heads of poor families work full-time; less than half work at all. The top fifth of the income distribution works seven times as many hours as the bottom fifth. He claims that most barriers to work are largely imaginary: there are still plenty of unskilled jobs; most women can arrange childcare quite cheaply; welfare benefits are too low to provide a rational alternative to employment. The problems lie mainly in people's heads.

It is not that the poor are social rebels. Surveys indicate that welfare claimants share the same values as the rest of society: for example, they affirm the importance of steady employment and law and order. On many social issues, the poor are actually more conservative than the better off: "They value external controls on behaviour exactly because their internal controls are less secure." For Mr Mead, the core problem is that the poor have difficulty organising their lives and responding constructively to the opportunities that do exist. They are "dutiful but defeated", unable to put good intentions into practice.

The solution is not more incentives or opportunities but – horror of horrors – enforcement. Mr Mead strongly supports workfare, or policies that make welfare benefits conditional on work or training. Mandatory requirements are necessary to "overcome the defeatism of the clients, to engage their own energies in the quest for employment". He claims that workfare is much less resented by the poor than intellectuals suspect, mainly because the aim is to enforce values that clients already possess. Indeed, some clients are gratified to be chased up by officials because it indicates an interest in their lives. The main purpose is not to force people unwillingly into jobs but to ensure they organise themselves for regular activity outside the home. "Authority thus operates as the midwife, not the antithesis, of freedom," he claims.

New paternalism is still a sideshow. But as states implement the 1988 Family Support Act, workfare requirements will become more common. It is likely to mark the beginning of a new trend, in which government agencies demand rather than merely encourage changes in behaviour.

The reliance on authority leaves a sour taste. But market liberals who put freedom first should remember how much their philosophy takes for granted. Those who flourish under capitalism have usually been subject to heavy psychological moulding during childhood, both at school and in the home. They have been trained to respond to the right incentives. The new paternalists are no more authoritarian: they merely want to tackle dependency by providing a little extra training for those who missed out in childhood.

**The New Politics of Poverty, Basic Books New York, $25.*

JOTTER PAD

CROSSWORD

No.7,861 Set by ALAUN

ACROSS

1 How the successful diviner is rewarded? (4,4)
5 A grasp of what the machine is talking about? (6)
10 The case that's got well (5)
11 Acknowledgment sent today to the embassy (9)
12 The monster lurched way behind: right at the back (9)
13 She's no less ready to return (5)
14 Lessons to be learned from the route taken (6)
15 Be inclined to think us quiet, in the group (7)
18 Row the sailor back first, in a worse temper (7)
20 Saw it turning ahead and is ready for it (6)
22 Your reply to the physician's "Who's the wine for?" (5)
24 Not bright, but may be the source of swift thinking (4-5)
25 Mad, swore (9)
26 What is needed to make it his (5)
27 The new news editor has got through to somewhere abroad (6)
28 Gave up and got plastered (8)

DOWN

1 Is the point sheathed? Most sensible (6)
2 With signs that spring is here, no longer garages (6,3)
3 They're wrong together (8,2,5)
4 Having gone to ground, is needing help (2,1,4)
6 The right heel (4,2,9)
7 Goes for the very French one on the inside (5)
8 Do without men (3,5)
9 I'm infiltrating groups that back strikes (6)
16 A fan from a vehicle (9)
17 Given a very serious case to treat, is clearly not pleased (8)
19 Jaw from a small animal (6)
20 Make short work of (7)
21 Moved with measured tread? (6)
23 Strain to express one's unhappiness (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 13.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

½ hour period ending	Provisional Price for Trading on 01.06.92: Pool purchase price £/MWh	Final Prices for Trading on 04.05.92: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.39	17.01	17.01
0100	17.39	17.01	17.01
0130	17.39	17.05	17.05
0200	17.39	22.24	23.63
0230	17.39	22.24	23.64
0300	17.39	22.24	23.62
0330	17.39	18.59	19.82
0400	17.38	18.59	19.84
0430	17.38	17.09	17.09
0500	17.38	17.03	17.03
0530	17.40	17.09	17.09
0600	17.39	17.09	17.09
0630	17.40	17.06	17.06
0700	18.50	17.09	17.09
0730	21.80	17.09	17.09
0800	23.24	18.29	19.62
0830	23.05	18.34	19.55
0900	24.06	18.34	19.55
0930	27.85	18.40	19.62
1000	27.85	18.60	19.82
1030	27.85	18.68	19.90
1100	28.48	20.60	21.87
1130	29.92	23.74	25.13
1200	29.92	23.74	25.13
1230	29.92	23.74	25.13
1300	29.92	23.74	25.13
1330	26.74	20.60	21.88
1400	25.46	18.68	19.93
1430	24.42	17.09	17.09
1500	24.42	17.09	17.09
1530	25.29	17.07	17.07
1600	25.29	17.09	17.09
1630	27.85	17.13	17.13
1700	27.85	22.90	24.29
1730	27.85	22.90	24.27
1800	27.85	22.90	24.26
1830	23.63	18.68	19.90
1900	23.05	20.62	21.91
1930	22.01	20.62	21.92
2000	21.84	20.62	21.92
2030	20.35	21.53	22.85
2100	20.24	22.59	23.83
2130	20.35	22.59	23.92
2200	27.90	22.58	23.83
2230	27.90	22.59	23.93
2300	20.35	18.99	20.23
2330	19.83	17.14	17.14
2400	19.54	17.09	17.09

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The Provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price and other factors and is also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Price for Trading on 31.05.92: Pool purchase price £/MWh	Final Prices for Trading on 03.05.92: Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.19	17.02	17.02
0100	19.19	17.02	17.02
0130	19.19	17.06	17.06
0200	19.19	17.75	19.52
0230	19.19	17.79	19.53
0300	19.19	17.79	19.53
0330	18.23	17.79	19.55
0400	18.23	17.79	19.57
0430	18.23	17.03	17.03
0500	18.23	17.01	17.01
0530	17.34	17.03	17.03
0600	17.34	17.03	17.03
0630	17.34	17.02	17.02
0700	17.34	17.02	17.02
0730	18.93	17.03	17.03
0800	18.72	17.03	17.03
0830	19.95	17.05	17.05
0900	19.95	17.05	17.05
0930	20.33	17.78	19.54
1000	20.33	18.45	20.23
1030	20.36	17.78	19.52
1100	24.13	20.21	22.02
1130	23.51	20.41	22.23
1200	25.08	22.25	24.14
1230	25.08	22.25	24.14
1300	25.08	22.25	24.14
1330	25.08	20.41	22.24
1400	20.36	19.19	20.89
1430	20.36	18.45	20.23
1500	20.36	17.06	17.06
1530	19.72	17.04	17.04
1600	17.41	17.03	17.03
1630	17.39	17.03	17.03
1700	17.41	17.05	17.05
1730	20.36	17.06	17.06
1800	20.36	17.78	19.58
1830	20.86	17.78	19.55
1900	20.36	17.78	19.55
1930	20.36	17.78	19.55
2000	20.78	17.78	19.55
2030	20.78	18.45	20.24
2100	20.78	17.78	19.53
2130	23.23	19.61	21.41
2200	25.18	19.61	21.41
2230	30.90	18.59	20.38
2300	24.00	18.59	20.38
2330	24.00	18.59	20.38
2400	17.41	17.05	17.05

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price and other factors and is also capable of revision.

NGC Settlements Limited

A trespasser in the skies

JUSTINIAN

If a helicopter hovers over X's house for five to 10 minutes in order to take photographs for the purpose of publishing them in a national newspaper, what remedy (if any) does X have against the newspaper and the photographer? That question might currently, or in the recent past, be found in an examination paper for budding lawyers or journalists. It provides one of the quiddities of media law, which continues to intrigue students of the invasion of privacy.

The problem was given an airing last week in an adjudication from the Press Complaints Commission. It rejected a complaint against the Daily Mail, which had published a story with photographs (obtained aerially from a helicopter) of the home of Mr David Sullivan, the publisher of Sunday Sport. The newspaper was held not to have invaded Mr Sullivan's privacy and, in any event, the newspaper was entitled to defend itself on the ground that its story was a matter of public interest.

In acquitting the newspaper, did the commission have one eye firmly on a recommendation made by Lord Calcutt's committee two years ago which so far has not found favour with either government or parliament? The Calcutt committee, in rejecting the idea of providing a civil law remedy for the invasion of privacy, was keen nevertheless to see some remedy introduced into the criminal law in order to deter the worst journalistic excesses involving physical intrusion into people's lives.

The committee identified three situations: the physical entry into private property for the purpose of obtaining personal information for publication; the placing of bugging devices on private property for that purpose; and the photographing of individuals or the recording of their voices on private property for that purpose – in each case without the individual's consent. A defence to the proposed offence of criminal trespass would be that the act was carried out to prevent, detect or expose the commission of any crime or other seriously antisocial conduct, or for the protection of public health or safety or "under any lawful authority".

The committee rejected the idea of making it a further offence to publish any photograph, information or recording obtained by illegal methods. It was circumspect about creating an offence of publishing material where the point at issue would be how it was obtained, rather than the content. The proprietor or editor could always be prosecuted as an accessory to the proposed offences, or for conspiracy.

The essence of the proposed criminal offences is the motive of the "trespasser". Fifteen years ago, Lord Bernstein, the founder of the Granada entertainment group, brought an action in the high court against a company engaged in the business of taking aerial photographs of properties, without the owners' consent, and then offering the product to the owners for sale. A single photograph taken by a helicopter which flew over Lord Bernstein's country estate was offered, and contemptuously turned down, at a price of £15.

The trial judge dismissed the action for trespass on the ground that Lord Bernstein did not own the air space over his land. As Lord Wilberforce once pronounced in a different legal context, to suggest that "land" means the whole of the space from the centre of the earth to the heavens was "so sweeping, unscientific and impractical a doctrine" that it would not appeal to any legal, let alone a non-legal, mind.

But what about an invasion of privacy? The judge held that the mere taking of a photograph was not unlawful. It was not possible, therefore, to transform an act which was not a trespass into one, in the absence of a law of privacy.

But in Lord Bernstein's case, however, the photographing was distinctly not for any journalistic purpose. The judge warned that he did not wish his judgment to be understood as deciding that in no circumstances could a successful action be brought against an aerial photographer to restrain his activities. If an individual was subjected to the harassment of constant surveillance of his house from the air, accompanied by photographing of his every activity, the court might regard that as an unwarranted invasion of privacy and an actionable nuisance for which the court would give relief. But the single act of photography, restricted to one short period, would be unlikely to arouse the ire of the law to the point of classifying it as a nuisance.

Hence the Calcutt committee's desire to fill the gap, by creating three offences of criminal trespass exclusively where a journalistic purpose was being effected.

The route that legislators might take, in the light of the Press Complaints Commission adjudication, is to provide a civil remedy, rather than contemplate the risk of putting a journalist or an editor in the dock. Aerial surveillance is more susceptible to abuse and invasion of privacy than ground surveillance. And helicopters, with their virtually unlimited manoeuvrability, are particularly likely to intrude unreasonably upon private activities. Perhaps a single amendment to section 76 of the Civil Aviation Act 1982 (dealing with the liability of aircraft for trespass, nuisance and surface damage) would suffice.

Louis Blom Cooper

SPAIN

Five men who could become Prime Minister; a chat with the people's friend Page 2

Trade unions unsheath the strike weapon; regionalism tugs at the centre Page 3

Monday June 1 1992

Spain is celebrating its political and economic rebirth in flamboyant style. When the year's festivities are over, it will be asked to start paying the high price of its return to democracy and its European Community status, Peter Bruce writes in this six-page survey

Comes the reckoning

At Fuengirola's summer festival of the Virgin: for all Spain, 1992 is a year of fiesta with a serious lining

SPAIN'S YEAR of fiesta as it celebrates the 500th anniversary of Christopher Columbus's voyage to America, the World Fair in Seville and the Olympic Games in Barcelona, will touch almost 20m people. It is a happy time and the perfect opportunity to salute Spain's progress since it emerged 16 years ago from the shadow of an introverted and small-minded dictatorship.

But there is a cloud to this silver lining, probably one which only the people who run the country saw coming. For 1992 is also the year in which Spain is being asked to start paying the price of its young democracy's return to respectability and its entry in 1986 into the European Community.

It is hard to describe what that meant to Spain, although it is measurable. Between 1986 and 1989 the Spanish economy grew at an average 5 per cent a year, far outpacing its large Community partners. Foreigners pumped about $30bn in direct investment into the country and more than $300bn into its debt and equity markets. Poor Spaniards rushed to fill their tiny homes with fridges and TV sets. Old cars were left to rot in ditches while new ones filled the streets.

As imports were sucked in, Spain's current account plunged into deficit and has risen from surplus to a $16bn deficit in four years while the central government and 17 autonomous regional governments, not to be outdone, jumped on the freespending bandwagon.

By last year central and regional government were borrowing some $23bn to finance their budgets, double 1989 borrowings, and efforts to stick with budgetary limits were simply thrown out of the window. Last year, the central government planned for a $5bn budget deficit and ended the year with a figure nearly three times bigger, passing the budget target in about April.

This year, the figure is a more realistic $11bn but even that might be wildly optimistic. The state's cash deficit – which excludes interest payments – by the end of the first quarter of this year was 45 per cent higher than in 1990.

The figures are, in themselves, manageable, but the socialist government of Prime Minister Felipe Gonzalez, in its 10th year in office, has an agenda that gets in the way. Mr Gonzalez is not really a socialist. He is a modern nationalist determined that his country should not be left floundering with Portugal and Greece once the European Community goes ahead with economic and monetary union and mints a single currency.

There may be arguments for waiting beyond the 1997 or 1999 deadlines set by the EC for this but they fall on deaf ears in Madrid's ministries. The Gonzalez legacy to Spain will be to have shovelled it into the heart of Europe and locked it in, irreversibly, at the earliest possible opportunity.

The Prime Minister knows better than anyone that unless Spain is pushed, it would find 1,000 reasons not to jump. When he and his Finance Minister, Mr Carlos Solchaga, went to the Maastricht summit of EC leaders last December it was to deliver just that push by committing Madrid to the tough macroeconomic targets the summit established as necessary for any EC member to enter into EMU. Unless the Community's direction radically changes and Maastricht is discarded or softened to allow for the entry of new members, *la suerte esta echada*. For Spain, the die is cast.

Madrid has five years to meet those targets, which will demand big cuts in inflation, interest rates and the public deficit. It is not a long time, considering that Spain failed to impose this promised discipline during the good years after 1986 and is now going to have to find a way to do so, and continue growing faster than the EC average, in a period of economic slowdown.

Many of the targets in the convergence plan drawn up by Mr Solchaga seem quite optimistic, including 3 per cent growth this year and a reduction in the public deficit from a massive 4.4 per cent of gdp last year to just one per cent at the end of 1996. Spaniards have heard these promises before and they have always been sacrificed to political expediency and pressure from the socialist party. It happened last year when Mr Solchaga's tough budget draft was expanded to still party unease.

While the plan's targets go beyond what Maastricht demanded the jury will stay out this time until it sees clear evidence of implementation. Mr Gonzalez has to call a general election before October next year and Mr Solchaga's next budget will be the last before that poll. Experience suggests he will try to be true to the apparent freedom Mr Gonzalez has given him to rein in public spending but, equally, that the party may fight it.

But visitors to Spain's 1992 celebrations may run foul of convergence fairly quickly. Mr Solchaga, acutely aware that his plans to cut spending and to liberalise protected service industries could run in to all manner of hurdles if socialists political prospects begin to dim, in April took the unusual step of decreeing, without much debate, a sweeping cut in unemployment benefits which he combined with an increase in the time in work required to qualify for benefit. The measure could save Madrid up to $4bn this year alone.

The trade unions, which behave in Spain as an extra-parliamentary opposition, were quick to respond.

They called a half day general strike last week and, unless the decree is withdrawn, a full day general strike will be held in October as well. The government is so far refusing to withdraw it and is managing, *so far, to keep socialist* party nerves steady by promising small changes. If the unions get the upper hand, more would be given away.

For the moment, considerable labour unrest in the summer and autumn is almost inevitable, but it is the unions, not the Government, who might find the going tougher. As the strikes will not be about pay, *it might be harder to sus*tain any mobilisation.

What is happening could fundamentally change Spain. If the Government gets through the strikes and an election unscathed or even as leader of a coalition (which, if it were with the big Catalan party Convergencia i Union, would not overly bother Mr Gonzalez), it should have little difficulty implementing the rest of the convergence plan. That would blow away cobwebs – the pharmacy monopoly, ancient and powerful professional colleges, secure professorships and the doors that still remain closed to foreigners – in which much of Spain's economic culture is still trapped.

In spite of the rapid modernisation of the country's infrastructure and financial markets, Spain still has to make one more giant leap before it can sit at the same table with the richer Community powers it so yearns to emulate. It is not a competitive economy yet. A recent confidential survey by the Industry Ministry found that fewer than half of Spanish businesses knew what effect the Single Market would have on them from next year.

Nevertheless, local businesses had quickly absorbed the implications of one of the Government's boldest recent decisions – to lift all capital controls – and almost half of the companies consulted said they intended dropping high cost Spanish banks to search for more competitive lenders elsewhere in the EC.

The only way for a Spanish bank to compete with that kind of pressure is to cut its lending rates and reduce the industry's huge lending margins (around 4 per cent of total assets, the ECs highest after Greece and Portugal) to competitive Community levels. News like that must make life worth living for Mr Solchaga, who is attacked almost constantly and by almost everyone for forcing this economy to compete. But, somehow, in a pre-electoral period, with fixed capital formation plummeting (from 14 per cent growth in 1988 to a tiny 1.6 per cent rise last year), with unions on the attack and no

Continued on page 4

IN THIS SURVEY

Prime Minister Felipe Gonzalez: the moderniser

Prime Minister Felipe Gonzalez resets his sights

Ten years, and still running

FELIPE GONZALEZ can seem *so careless sometimes.* "It makes you want to shake him," says a long time admirer. When he rose to the speaker's podium in Parliament in March to deliver his state of the nation address he seemed tired and distant.

Such Gonzalez appearances are rare and eagerly anticipated as much by his opponents as by his friends. But the speech was delivered in a monotone – most of it was read in a hurry – and he only stopped once to chuckle. No one else caught the joke. Was he laughing at his own performance or at what he was reading?

It was astonishing, really. The Spanish Prime Minister was proposing a radical effort to reform or crush the stubborn rigidities in Spanish life

Spain lives by rumour and innuendo, but it is all perfectly natural

– from the easy frauds that encourage people to become officially unemployed to the comfortable guilds that protect and preserve the high costs of professional services. These go to the very core of the way Spaniards live.

It was only a few days later, when the Finance Minister had put some meat on the bones Mr Gonzalez had thrown to parliament, that the true import of the changes dawned on the trades unions. They quickly began to threaten all manner of revenge, (as discussed in a separate article).

The importance of Mr Gonzalez's off-hand treatment of the unions was a measure of his state of mind.

Opponents have been suggesting for years that the Prime Minister, who has been in office since October 1982, is tired. *Wild rumours swirl* about. One day he is said to be after the presidency of the European Commission (this is probably not the case) and the next day his eye is said to be on the Socialist International (again, no).

A week later, he will be depressed at the strained relations between his Government and the socialist party, of which he is also leader. Or maybe his health will be troubling him. Spain lives by rumour and innuendo and all of this is perfectly normal.

But it is probably reasonable to assume that he is tired. Bored may be a better word. Mr Gonzalez never wanted to change Spain, just calm it down after so many years of nervous dictatorship and tumultuous transition. It is his stated aim to raise Spain to be an average country, with average European Community incomes, average lifestyles and average output.

This struggle may have been captivating while Spain was a long way from converging with the rest of its European neighbours. But as Spain gets closer Mr Gonzalez naturally comes under pressure to reset his sights beyond nominal convergence and this is hard, even for a politician as successful as he has been. It means changing gear and taking a constantly bickering party with him.

The March speech suggested Mr Gonzalez was either not going to bother much taking his party – still dominated at an administrative level by the Left – with him or that he had *somehow already persuaded* the bulk of the organisation's leadership they had no option to follow him. Given the subsequent expressions of support for the convergence plan he was outlining, the latter may well be the case. What is crucial now is how that support holds up in the face of union attack.

The Left has an interest in not rocking the boat too soon. If the unions succeed in changing economic policy and the jobless benefit cuts in the Plan, *then Finance Minister Carlos* Solchaga's position in the Government will be greatly weakened. Mr Solchaga is deeply despised in party headquarters *but his strength in Govern*ment is, for the moment, unquestionable.

Just two weeks after making that speech the guts of the convergence plan – steep cuts in unemployment benefits – had become law.

Although he will allow the party to tinker with the the benefits decree, he seems to have abandoned his customary caution and, following his instincts, finally turned both ears to Mr Solchaga, who has told him that unless Spain dramatically streamlines its top heavy bureaucracy, forces workers to seek jobs and fiercely attacks high prices – be they lawyers or plumbers' fees – the country could drift well past the turn of the century trapped by a ring of inefficient traditions that almost guarantee its mediocrity.

Union pressures may still panic the party but electoral arithmetic makes it relatively easy for him to be this cavalier. Even if the implementation of this plan damages socialist party support, there is simply no-one in the party capable of winning more votes for it in the next general election (which must be held by

It is risky to assume the Premier will make the next election his last

October 1993) other than himself. Whatever he does, the party, which now has exactly half the seats in parliament, will not get rid of him.

*Even assuming a loss of sup*port, from Mr Gonzalez's increasingly conservative point of view the prospects of a coalition are almost attractive. This would almost certainly be with the ruling party in Catalonia, Convergencia i Union (CiU) or, more remotely, with the biggest Basque party, the PNV.

Both are conservative, and the presence of either in a Gonzalez government would allow him (and Mr Solchaga) to ignore the more strident left wing of the socialist party *because of the demands of* coalition.

A Catalan or Basque partner would add pressure on Madrid to devolve more power but *there is little chance that such* a scenario would split the socialists, who would still be able to enjoy the fruits of power, in the short term. It is, anyway quite possible that the socialists, under Mr Gonzalez, might improve their share of the vote in the next election. That would depend on how well the unions manage their challenge to the convergence plan.

But the next term of office could take the socialists right up to convergence and the scheduled creation of Economic and Monetary Union in the European Community by the end of 1996 and it would be courageous to bet on the Prime Minister fighting a fifth election then.

His going does not depend on another job being found for him. It depends on the socialist party being able to find someone who can win elections for it. Spanish politics concentrate on leaders, not programmes, and without him, the face of politics here changes completely.

For a start, it means that his current opponent – Mr Jose Maria Aznar, the leader of the conservative Partido Popular – would become vulnerable to challenges from an attractive right wing crusader unsullied by years of opposition politics. Mr Gonzalez's going will be exactly the right time for such a person to bid for office.

That person may be Mr Mario Conde, a young banker, chairman of Banesto, one of the country's biggest banks, and an articulate – though *still not quite engaging enough* – spokesman for an even freer economy than the pragmatic socialists have been able to erect. Large parts of the opposition press already champion him but now is not the moment. No-one will beat Felipe Gonzalez in the next election but the moment he goes, the search for a new face, a new voice, begins and it really does not matter which party – within reason – he or she belongs to.

Nevertheless, assuming that *Mr Gonzalez will make his* next election his last is not without risks. There is no grander position in Spain for him to occupy and the parlia*ment and the senate in Spain* are not places anyone with his talents would want to spend much time as a former leader.

And he is not a rich man. He would probably find it quite hard to buy a good apartment in Madrid if he had to.

So there is an inertia that keeps him in office. It will not last forever, though.

Politicians to watch (l to r) Narcis Serra, Javier Solana, Jose Borrell, Carlos Solchaga and Jose Bono

Some of the leaders who could one day win the top job

Heirs not so apparent are waiting in the wings

THE Spanish Socialist Workers Party (PSOE) is a tightly disciplined and very effective machine.

It has dominated Spanish politics for nearly a decade because it is better organised than any of its national conservative or radical rivals. But its very discipline has meant it has been impossible for good politicians to project themselves beyond the party and, assuming Mr Felipe Gonzalez fights only one more election as Prime Minister, it is hard to be precise about his possible successors.

An election has to be held before October 1993 and the next one four years later. All that is too late for one of the wisest men in the Cabinet, the foreign minister, Mr Francisco Fernandez Ordonez, and too early, probably, for one of the brightest battle tested politicians in the party, Mr Ramon Jauregui, PSOE leader in the Basque Country.

Two things are, however, likely: a replacement to fight the last election of the century will come from within the party and, second, anyone too closely associated with the former left wing deputy prime minister and current party vice president, Mr Alfonso Guerra, *would probably be unelectable.*

Five possible candidates to replace Mr Gonzalez are briefly profiled, in alphabetical order, below:

● **Jose Bono Martinez:** A lawyer and president of the autonomous region of Castilla-La Mancha in central Spain since 1983.

He was once considered a confidante of Alfonso Guerra, who runs the party machine. But Felipe Gonzalez has begun to lean on regional leaders like Mr Bono to offset left wing pressure from party headquarters in Madrid, drawing them closer to Government and away from party.

Mr Bono is developing a reputation as a socialist powerbroker and allowed himself to *be associated in public with* the conservative finance minister, Mr Carlos Solchaga, when the latter was being shunned by many party colleagues. That did not necessarily mean support, but rather an attempt to appear above intra-party bickering. The press likes him.

● **Jose Borrell Fontelles:** Young and intense, Borrell is minister of Public Works and Transport, the biggest spender in the Cabinet.

Secretary of State for the revenue service until his elevation to the Cabinet last year, Borrell has, along with the Prime Minister, probably the most pristine reputation in Government. It was Borrell *who persuaded tax evasion* charges against the brother of former deputy premier Alfonso Guerra.

Increasingly independent, he is not greatly liked in party headquarters but that may not be a long-term handicap. The longer Gonzalez remains in office, the brighter Borrell's prospects. As minister for public works, he is able to score political points by associating himself with the country's grandest projects.

● **Narcis Serra i Serra:** Deputy Prime Minister and the most likely successor to Gonzalez in the short term. A consummate politician, Serra has been given the task of smoothing poor relations between the Government and party officials *unhappy with conservative* economic policy. Also, he is Catalan (and speaks it) which is a plus for any PSOE leader as Spain's regions – Catalonia being the strongest – press for more autonomy.

An accomplished pianist, Serra was Mayor of Barcelona in the 1970s and made his political mark as Defence Minister between 1982 and 1991, familiarising an unhappy military with the joys of democracy. The party machine is warming to him but he has little public charisma and would not be an impressive campaigner.

● **Javier Solana Madariaga:** Education Minister and former culture minister and govern*ment spokesman.* Solana has managed to push controversial education reforms through without alienating the unions or students. He nevertheless keeps a low profile. His position in the party is strong and *he is the senior Madrileno* in the executive.

Solana has managed to escape being identified too closely with either the left or right of the party, though for a while in the 1980s his brother's chairmanship of the telephone monopoly Telefonica and, later, the state-owned television and radio stations invited some accusations of nepotism. Probably a conservative, he would become a compromise candidate in a race between stronger claimants.

● **Carlos Solchaga Catalan:** The architect of the socialist government's rapid drift towards liberal market economic policies, Solchaga probably has more political enemies than any other Spanish politician today.

He has a small power base in his home region of Navarra but the party is deeply suspicious of him. Relenting on big budget cuts planned for this year helped that relationship.

Mostly, Solchaga speaks to Gonzalez and Serra, who then tell the party what new misery he plans to inflict on socialism. It makes it unlikely the party could ever bring itself to elect him leader, or prime ministerial candidate, but that does not mean he would not want the job. Confident and dismissive of doubters, he is the best infighter in the Cabinet.

An interview with Alvaro Gil-Robles, the Spanish *ombudsman*

The people's friend

ALVARO GIL-ROBLES is, officially, the people's friend. The son of a controversial conservative leader during the Spanish republic 1932-1936, he *is el Defensor del Pueblo,* the Government-appointed ombudsman to the nation.

Gil-Robles sees the down-side of Spanish life as people bring him their complaints. But he is also an optimist – an educated and demanding Spain is, he says, rapidly shedding the detritus of half a millennium of misrule and conflict.

QUESTION: *It is 500 years since Spain as we know it was created. Has the way Spaniards and their rulers regard each other changed much since then?*

ANSWER: Yes and no. The Spanish people have 500 years of conflict behind them. Spain has undergone a great transformation, more in the past few years than at any other time. They have learned the lessons of many years of misunderstandings, of angry and violent conflicts, and have established a basis for peaceful understanding between each other. They have also learned they cannot live in isolation. They have had to open themselves to the European phenomenon and this has required an important mental leap. They want public services to work and although everyone complains, they pay their taxes. Also, this is the first time parties of all ideologies have backed a single Constitution while at the same time we have set a great regional (political) project in train.

So is this once centralised country becoming a federal one?

I really cannot say. Not long ago the thought of politically autonomous regions (the 1978 Constitution established 17) would have been distant and strange to many millions of Spaniards. This was a centralised culture and we had had centuries of other models failing. Now, suddenly, the regional ideal seems possible. The regions have their own dynamic, they have not distorted the country, they have not made it poorer.

But after the Reconquest ended in 1492 Spaniards seemed to surrender their hard-fought liberty back to a powerful central power. Are they now taking it back?

The key is education. By the start of this century, Spain was riddled with inequalities. Millions of citizens had no real access to culture or education. Wealth was very badly distributed. Until the 1960s, we were a nation of emigrants, a people without a modern economy. There was nothing to do but

Gil-Robles: an optimist who sees the sorrows of Spain

leave. But things have changed with education. There is time now to look at how they are organised. Spaniards want to know how to remain competitive and to make public services work and how we will combine giving more (autonomy) to those regions that want it with less to those which do not.

Are Spaniards in the countryside, in small towns, really aware of what being part of Europe implies?

I have my doubts. The Spaniard in Granada, for example, knows that Europe is a reality, that the country cannot live in isolation and that we have to work within Europe. But he is beginning to discover that this implies sacrifices. I think, though, that he is less distrustful of Europe than a Frenchman in Lyon, or an Englishman in Manchester. The problems Maastricht created have been much easier to deal with in this country, knowing that it (the decisions taken by the EC summit in Maastricht last December to proceed with economic union) is a decisive step with enormous consequences.

But how is it possible to sell these messages when there seems to be such a wide gap between political life in Madrid and what happens to ordinary people in the provinces?

Madrid is extremely lively politically and the rest of the country follows its own pace but I would not say the rest of the country is not informed. Maybe the rest have not begun to think about the consequences of Europe, positive and negative. People are still filled with expectation, living out the transition (to democracy) with many problems of their own. Europe may not be a tangible thing. It is still a young idea here.

At Maastricht Spain pledged to converge its economy with the rest of the EC by 1997. How will the country react to what could be a second transition, another modernising leap?

One has always known that we Spaniards are capable of doing extraordinary things very quickly. The question is whether we can also be long-distance runners. I belive we can be. Convergence will force us to stop thinking about today. We will have to begin to be professional, rigorous, serious, to plan. We need to drop our bad habit of wanting everything to happen at once. One example is the tourist industry. We have destroyed our coasts and built a poor tourist infrastructure, but when the Expo happens in Seville or the Olympics take place in Barcelona suddenly hotel prices rocket. This is awful and there is no reason for it if we want to maintain serious and solid tourism polices.

What do Spaniards complain about?

About many things but they do it with intelligence. They complain because the system of justice is so slow. It's a fact and important to the economy. Part of the principle of legal security is that justice is agile. They want the public administration to improve and to be a service rather than an intrument of power. They want that when they have a sore ear the social security don't hand

□Continued on Page 5

Trade unions drift uneasily into a showdown with Madrid

The hesitant tendency

IF THEIR own rhetoric is any guide, then the next 12 months - perhaps the next 12 weeks - are going to be extremely testing for Spain's two big trades unions, the socialist General Workers Union (UGT) and the communist Workers' Commissions (CCOO).

Both have pronounced the economic convergence plan presented to the country by the Government in April, and its steep cuts in unemployment benefits, as the worst attack ever by a democratic Spanish government on the country's work force. Both promised to respond with all their might.

A series of nationwide stoppages, in late May and in October, now threaten the country's 1992 celebrations. Nevertheless, the unions have been strangely divided about their reaction to the Plan, and especially the cuts in unemployment benefit which are central to it.

Mr Nicolas Redondo, the ageing UGT leader and Prime Minister Felipe Gonzalez's political godfather in the 1970s, has been so outraged by the plans that he moved well beyond the normally more radical CCOO, and was first to call for a general strike.

Only weeks after the decree implementing the benefits were published he and the CCCO leadership able to agree on a time table for union action.

Their initial inability to say the same thing in the face of the same threat was a telling reminder of how cleverly the Government has begun to spot weaknesses in what was assumed to be a solid trade union front. The UGT and the CCOO combined very effectively to organise a one day general strike in December 1988 against government employment policies.

Cuts in unemployment benefits are seen as the toughest steps against the workforce since the days of Franco

A long drama is being played out here. After Franco's death the unions managed to win, in spite of relatively small memberships, a role in the way Spain constructed its new democracy.

They had, after all, been brutally treated under the dictatorship and were regarded in the late 1970s as one of the three "social partners" (along with business and government) essential to the smooth running of a consensual democracy.

This was especially true for the UGT, which was founded by the now ruling socialist party almost a century earlier. When the socialists came to power the UGT effectively did too. All socialist MPs were automatically UGT members.

Inevitably, this relationship broke down. Under prime minister Felipe Gonzalez, economic policy has drifted well to the right and annual three-way wage negotiations between the social partners became increasingly difficult to sustain and were last held six years ago.

The Government's decision to enter the EC imposed new modernising priorities on economic policy and few people were surprised when the Socialists and the UGT formally split three years ago.

It was then, on December 14, 1988, that the unions seemed to have won the upper hand by calling a highly successful one day general strike that paralysed the country.

But time has radically narrowed the union's chances of success. Firstly, it was always obvious that the 1988 strike was successful mainly because people simply decided to take the day off work rather than try to reach their offices.

Now, too, the Government has made it clear it has no intention of negotiating the convergence plan with the unions. That means they will not be able to draw Madrid into a public debate outside the Government's control (as was the case in 1988 over a youth employment scheme that triggered the strike).

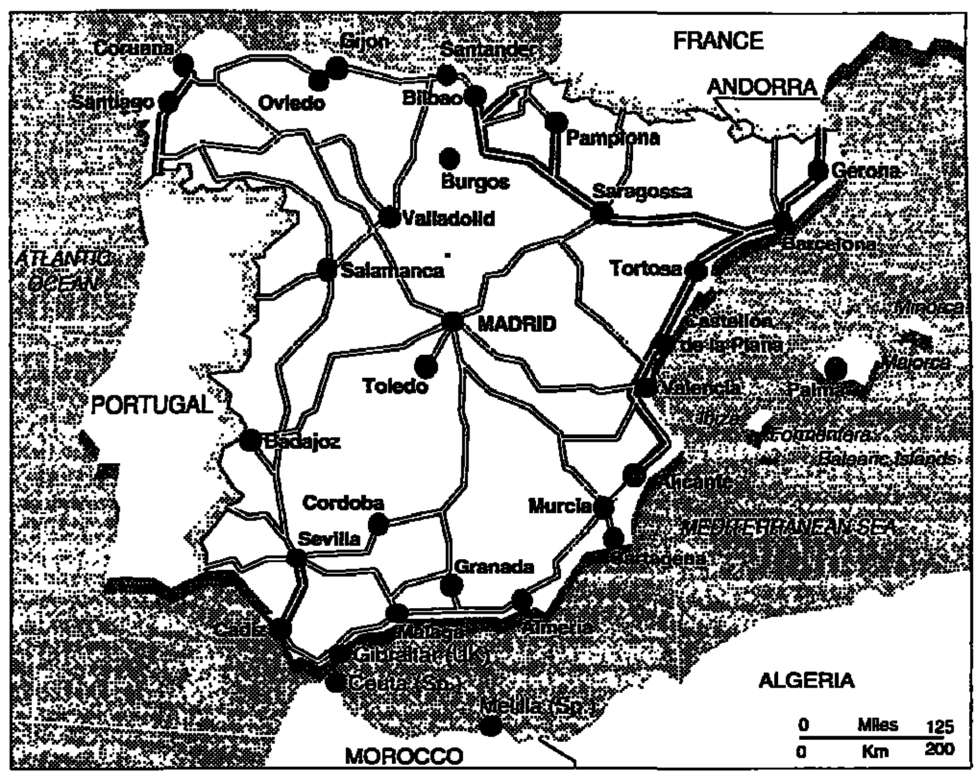
It means both the UGT and the CCOO are sparring with an opponent who refuses to come out of his corner. The public is not yet outraged and the widely varying action time scales of the two leaders are a sharp contrast with the unity they developed in 1988.

The Government has been extremely clever. Without debate the public only hear the complaints of union officials. These never get on to the public public television and radio channels, however, and even the biggest opposition newspaper, the conservative *ABC*, has been strangely muted on the issue.

That is because the conservative opposition, the Partido Popular, has, with its keen nose for opportunity, rushed to embrace the unions and promised to fight the convergence plan with them while the main business confederation, the CEOE, thinks the plan is just what Spain needs. The CEOE carries considerable clout in *ABC*.

It leaves the unions with probably only one effective voice in the media, the already stridently critical newspaper *El Mundo*, to champion opposition to the convergence plan. *El Mundo* is extremely critical about everything the Government does and it is hard to imagine how it could become noticeably more so now.

No-one in Madrid, in or out of Government, is suggesting the unions will not be able to mount loud and perhaps disruptive protests against the convergence plan but few people seem to be worried that action could be sustained for very long.



Certainly, the government seems to have built the probability of strike action into its planning of the convergence programme but it feels it has the unions in a weak position. As any strikes will not be about pay, the public's sympathy might be harder to mobilise.

Less than 15 per cent of the Spanish workforce is unionised anyway and Madrid seems to have got away with another divisive tactic earlier this year. This was its refusal to negotiate a difficult round of job and capacity cuts in industries owned or controlled by the state on a sectoral basis. Instead, they are being implemented on a company by company basis, robbing the unions of large platforms upon which to co-ordinate their responses.

Gradually, the Government may be winning a battle to remove the unions from the post-Franco pedestal upon which they were placed. The effort is to reduce them to mere bargainers for wages and conditions with the people who directly employ them.

Pressures for greater regional autonomy are growing stronger

The strain in Spain

RUNNING SPAIN must sometimes feel a little like drifting on a liferaft of oil drums tied together with thin string. The longer the craft stays in the water the weaker the binding becomes and the cans begin to move ominously.

Although bound by the 1978 Constitution, the 17 autonomous regions that make up modern Spain are beginning to jostle about, rubbing up against each other and pressing the central government for more autonomy. The problem is not that the raft is falling apart but rather that it is costing Madrid a lot more money to keep it together.

With Spain's public sector deficit running at 4.4 per cent of GDP (opposition parties claim it is much higher) a recent OECD report on the Spanish economy surprised noone by insisting that "one of the main causes for high deficits is expansionary policy by regional governments".

While the central government deficit has been falling since 1985, regional debt has risen from 0.3 per cent of GDP in 1985 to more than 1.5 per cent last year. The OECD accuses the regions of spending money on flashy projects and of paying their civil servants – many of whom duplicate jobs being done in Madrid – more than central government pays its own.

Frustrated by Madrid's reluctance to throw more money at them, the regions have begun to tap local and international capital markets for funds. Many are close to breaching their legal debt limits – interest payments may not be more than 25 per cent of revenues – and one, Cantabria, technically bankrupted itself last year.

The OECD calls on Madrid (in truth, OECD country reports are usually written with the assistance of the Finance Ministry concerned) to tighten up these limits and to make it clear to lenders that the State is not underwriting regional borrowing.

But that misses the crucial political point. The borrowing is just a symptom of the tremendous head of regionalist political steam built up *because* of the federal vision held out by the 1978 Constitution. Although the complex constitutional system gives some regions – Catalonia, the Basque Country, Galicia and Andalucia – more autonomy more rapidly than the others, all 17 regions are basically promised the freedom, in time, to run their internal affairs.

Madrid's difficulty is that it never really rid itself of the centralist tradition inherited from Franco and is trying to grant autonomy at its pace while many of the regions run by regional parties are trying to grab, in Madrid's view, too much too quickly. It is arguable that devolved power can never create a true federation anyway and that federal states such as Germany and the US function because the devolution went the other way – from the states to the centre.

The 17 autonomous regions are like a raft of oil drums in a heavy sea that is starting to come apart

The tension between regions and Madrid stands to reason: the politics of the regions are fundamentally nationalist, or even ethnic. It is essential to the electability of a regional party that Madrid be painted as an inadequate provider, as a distributor of Catalan taxes to Extremadura or of encouraging investment in Andalucia at the Basque Country's expense.

Much of this is game playing. But it can sound very threatening. Both Catalonia and the Basque Country are run by conservative nationalist parties whose leaders periodically say almost seditious things. Last year, the Catalan leader observed that Catalonia was in a very similar situation to Lithuania, which was then becoming independent of the former Soviet Union. Did he mean Catalonia should be independent too?

He said no, not at all, and then promptly began to press Madrid for more money and, to his horror, had his bluff called. In negotiations last year to redesign the financial arrangements between the regions and Madrid Catalonia began to press loudly for the right to be able to spend the taxes raised in Catalonia. Madrid soon shut this up by suggesting the Catalan government might like to raise these taxes itself too, as the Basques do.

This was not what the Catalans had in mind. Raising (in the sense of collecting or increasing) taxes is not a politically attractive thing to do. The Catalan Government simply wanted to *spend* what Madrid had collected. So the demand was quietly dropped.

But the fuss about more autonomy is not just a harmless struggle for money. Slowly but surely it is changing the face of Spanish politics as the large centralist parties weaken and the regionalists grow. It is quite possible, for instance, that the next Spanish general election (to be held between now and October next year) will force Prime Minister Felipe Gonzalez's socialists into a coalition with either the ruling Catalan CiU or the ruling Basque PNV. Both these parties send MPs to Madrid and the CiU is the third largest party in the House.

The large conservative opposition, the Partido Popular (PP), has also been forced to compromise. In Navarra, for instance, it has an agreement under which it supports the ruling UPN in regional elections and in turn expects the UPN vote to come to it in general elections. The PP has also formed alliances with regionalist groups in Aragon and local ones in Valencia and Seville.

At another level, regions controlled by socialist party or PP leaders are also being forced to champion regional themes with which their centralist party leaderships are uncomfortable. In socialist Andalucia, for example, the regional government fights constant skirmishes with Madrid over health policy. Andalucia is one of the few regions with its own health service and claims Madrid, in order to save money, constantly delays making budgeted transfers to Seville which, in turn, borrows money in the capital markets to make up shortfalls and thus infuriates Madrid.

Meanwhile, Galicia, which the PP controls through its maverick founder, the former Francoist minister Manuel Fraga, is leading a sudden charge to redesign totally the way the historic autonomies – Catalonia, the Basque Country and Galicia – are run. He has called for the creation of a single administration in each territory, meaning that centrally appointed civil governors and other officials would be withdrawn. Madrid would thus delegate all its powers – including control of the police – to the leader in these regions.

It just happens that the socialists control none of the three historic autonomies (though they are the junior coalition partner in the Basque Country) and the idea therefore is unlikely to get very far now. But Catalonia's leadership likes it and single administration may yet make headway if the Catalan CiU is able to force the socialists into a coalition after the next national election.

For the CiU and the Basque PNV, the need to be seen to be making progress on questions of autonomy (even if it is sometimes illusory) is critical because they are constantly being chased in their own backyards by smaller parties which genuinely want independence for their regions and not just more national resources.

This is even beginning now in Aragon and while Basque separatists regularly take about 16 per cent of the Basque vote there has been a sharp increase in support recently for the separatist Catalan party ERC. That is a direct result of the Catalan leader, Mr Jordi Pujol, exciting nationalist fervour, and backing off. Whenever he does this he leaves a separatist residue for the ERC to pick up.


On the plains of La Mancha, the windmills immortalised in Cervantes's 'Don Quixote' are still turning

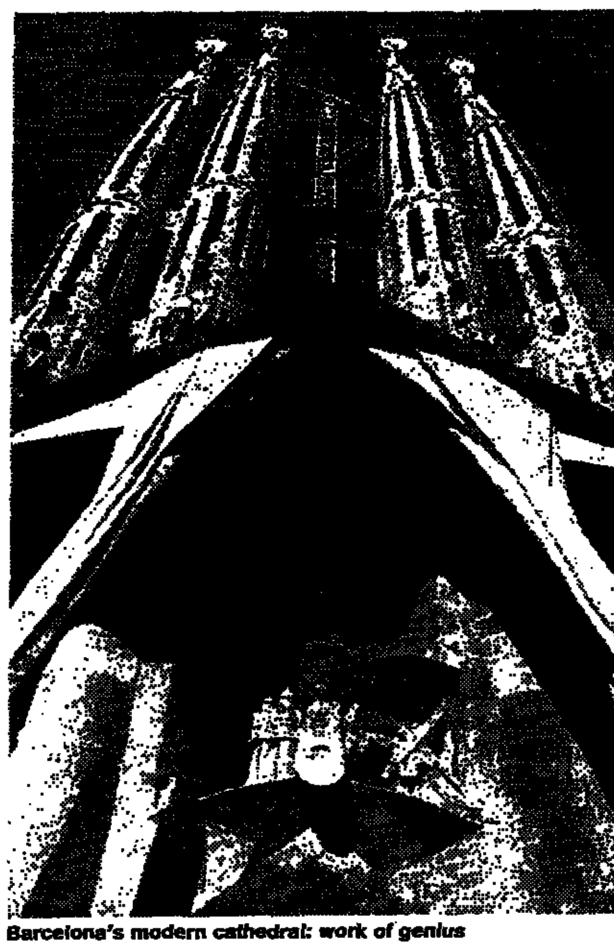
IT WOULD not be the Olympic Games without a last minute panic and Barcelona's panic has, not surprisingly, been about accommodation. In spite of spending some $1.5bn on creating housing for athletes, umpires and the media for this summer's Games, the sudden creation of new nations in Eastern Europe and the re-entry to the Olympics of South Africa has sent officials scurrying for available apartments and hotels.

There will not be many, even though many locals will probably leave town for the duration of the Games to watch them from some cool Balearic island on the television. When they come back, though, what a treat awaits them.

The build-up to the Games will have seen some $8.5bn of public and private capital pumped in to Barcelona. The city, *already an impressive* architectural monument to the modernist genius of its early 20th century fathers, has become *arguably the most* modern city on the Mediterranean. Just for a start, a $2bn new beltway system will probably take about 20 per cent of traffic off Barcelona's choking streets and help ease the city's most chronic problem.

But, says Enric Truño, the city councillor who has prepared the Catalan capital for the Games, they mean much more than revitalising a sagging infrastructure. "We want these Games to be different," he says. "We want them to show not just that we are hospitable and warm but also to break the notion that we are chaotic and lazy."

Rather like Seville and its Expo '92 further south, Barcelona and Catalonia have approached the Games as a unique opportunity to show themselves off to visitors and particularly visitors who might one day become investors. The region may be Spain's most economically robust but it is being challenged for that leadership by Madrid and sees the $10bn pumped in to Andalucia and Seville for the Expo as a threat.



Barcelona's modern cathedral: work of genius

Barcelona awaits the Games

Homage to Catalonia

Catalonia and Barcelona are to Spain what Baden-Wurttemburg and Stuttgart are to Germany – places were things, including the people, work best of all. Even in early April, guides were telling visitors to the Olympic city that everything was practically ready for the Games while in Seville, the Expo was forced to open with half a dozen of its pavilions still under construction and access to the site still partly blocked by construction. The Catalans will move heaven and earth not to be cast in the same mould when the 11,000 journalists and media technicians begin to pour into Barcelona in July.

They will probably get it right, but one wonders what Barcelona will be like after the Games are over. It is a strange city, desperately trying to live its life away from embarrassing, crude, *Spain. It* has become precious and sort of untouchable, like an exhibit.

Its citizens clamber to speak Catalan to each other, using up mental capacity on a language no-one else will ever bother to learn but which is not quite obscure enough (like Basque) to guarantee the exoticism Catalonia so craves.

A city famous for its artists and architects has decided once again that it should be the design centre of Spain but has never made the link between form and function central to all good design and which the modernists were true to.

Nowadays everything, from paper cups to public walkways, is designed and overdesigned. It would be nice if something spontaneous or ordinary happened.

The Olympics will, no doubt, test Barcelona's capacity to improvise. The city tried unsuccessfully to host Olympics in 1924, 1936 and 1972 and now the new hotels, oversized airport, beltways, subways and railway stations the Games *have brought are bound to* increase the city's confidence. They may even calm the twitch that drives Barcelona to *try constantly to be different.*

One thing will definitely help Barcelona to mellow. After decades of trying to pretend it was nowhere near the Mediterranean by building factories between the centre of town and the water, the Olympics have given the city back its beach, about five kilometres of it just in front of the $1bn Olympic village and its flashy new marina.

When the locals come back to town after the Games, the beach is where they will probably go. It will be hot then and probably a good time to switch off Gaudi and Dali and Picasso and get in *some serious* tanning.

Time for reckoning

Continued from page 1

obvious world economic upturn guaranteed to help him, he has to find a way of animating the economy, or at least disguising the bad news, without heating it up again.

It is impossible to second guess the Government, but it seems unlikely Madrid will try to enter the narrow band of the European Monetary System's exchange rate mechanism before an election. The fiscal sacrifice required to hold the peseta to a fluctuation of just 2.25 per cent against its partner currencies would be immense and politically dangerous. The government's best bet, it seems, would be to ride out the union protests against its benefit cuts. Spaniards may react badly to too much disruption and people are aware that the economy is delicate. If this works to the Government's favour an early election is possible. *In order to avoid a clash* with Expo, however (it ends on October 12), this might mean going to the polls in winter, which might not be popular.

One thing not in doubt – barring disaster – is that Mr Gonzalez will be Prime Minister before and after that election and the only remaining question is how long he will then want to carry on.

A no-nonsense A-Z guide for the businessperson in Spain

Start at El Aeropuerto

BUSINESS GUIDES, especially to Latin countries, tend to be frivolous affairs full of advice about how to mix business with pleasure. Spain, though, is a serious place so here are some utterly unfrivolous tips for the visiting or newly resident executive:

■ **Aeropuerto.** Madrid's is, unfortunately, unavoidable. The most most exciting thing in it is the local chamber of commerce bookshop. Some local flights only land at the international terminal, making finding your car very tricky. Barcelona and Seville, thanks to 1992, have new aeropuertos but they are so big that from 1993 onwards will probably be three-quarters cordoned off.

■ **La Banca and Barcelona.** The banks in Spain look modern but aren't. They take days (sometimes weeks) to transfer *your money, charge you* for cashing cheques if the branch isn't yours (even if it's the same bank) and will almost *never put the customer first.* Avoid them if possible. As for Barcelona, it has pretty buildings and prickly people – and *is losing out in business* importance to Madrid.

■ **Conductores y la corrupcion.** That is drivers and corruption *to you.* Watch out for both. Spaniards kill themselves at an amazing rate in cars and then blame the Government for building bad roads. Actually, they just drive like hooligans. Flying is safer and Iberia is a terrific airline. Corruption is serious although the central administration is probably straight. Locally, it gets bad.

■ **Discotecas y la droga.** Discos and drugs. Possession of any drug is legal. If you have children, they'll be seeing a lot of both. *Also, Spaniards love* noise and love discos. Most discos have children's hours, when 12 year olds can get their *noise fixes without getting* drunk. Then they fill up with the auditors and merchant bankers in charge of your $10m investment.

■ **Ehpana and Eppo 92.** Since the country is run by Andalucians it has become fashionable to speak with a southern accent. So drop your S's and X's, learn to enjoy dry sherry (manzanilla for the very deserving), cigarettes and bullfighting. Being churlish about bullfighting will make you no friends.

■ **Francia.** If you represent a French state company, the Spanish authorities would like to thank you for your interest in their state owned wool/artificial limb/briefcase handle/propeller/ceramic lampshade enterprise but are very sorry. No. You own a great deal of Spain already and you make the Industry Ministry very nervous.

■ **Gonzalez, Felipe.** Despite trying very hard to get himself sacked lately, Spaniards have decided to punish him for being so conservative by making him prime minister for another 10 years.

■ **Hotels.** Spaniards are great waiters but all the good ones work in restaurants. The rest *go to hotels. Accommodation* generally average. Stars awarded for facilities, not service. Good double in the Palace *or Ritz in Madrid costs about* $500 a night.

■ **Inflation?** Stay in the hotel you stayed in last year.

■ ***Jabugo*** **cured ham.** This is what your Spanish hosts will ply you with to break down your resistance to the outrageous amount of money they want for their pickle factory. It always works. One plate of this stuff will make you want to live near a supply forever. F Gonzalez sends a monthly supply to an H Kohl in Germany.

■ **Kiosks.** Nagel's encyclopaedia guide to Spain doesn't have a 'K' entry but then it isn't sold in kiosks along with your newspaper, tobacco, bus tickets and pools. Kiosks are a great idea but they're always closed when you need one.

■ ***Lunch (Almuerzo):*** *2.30pm to* 5.30pm at least. Best avoided if you've got work to do. Aperitif with snacks, wine, starter, *wine, main* course, "more wine?", sweets, coffee, liquors. All laced with swirls of cigar and cigarette smoke. You leave the restaurant and reel like Dracula as the sun (surprisingly still there) blinds you and, on average, in Madrid, about $110 poorer for two.

■ **Madrid.** A great place to do business if you've got a good local lawyer. Mostly very clean, well run, keen to please. Try to get your work done in the mornings. Post-lunch comprehension close to zero. Claims to be Cultural Capital of Europe this year but many museums and monuments still *boarded up for renovation.*

■ **Newspapers.** If you read Spanish stick to *El Pais* and *La Vanguardia* (Barcelona) for good general, international and business news. *Expansion* for corporate news and *Cinco Dias* for whatever the Finance Ministry is thinking. *La Gaceta* sometimes surprisingly fast with business news. The rest of the nationals are axe-grinders. On most days the FT is in Madrid kiosks at 8.30am.

■ **Obsequio.** Gifts. Pay close attention to this. Spanish companies give lots of these to business journalists, most of which are unfortunately too *valuable to give back.* Mainly wine and watches and fax machines and wine and CD players and wine. Government *officials have come to expect a* little more from business.

■ **Post** ***nothing!*** Franco made every letter posted in Spain pass through Madrid where he could read it. Things have not changed much. The postal service is reckoned to have a running backlog of about 5m items at any one time. Use a messenger service but don't let the blighters use your phone when they arrive. That's to get the next job and it means your message just got delayed.

■ **"Que?"** (Huh? What?) is something you'll be hearing and saying a lot as you and your local business partners talk past each other. Don't bother with pardon me and all that. A straight "What" is fine. Spaniards speak Castillian far *too* quickly. Latin Americans take their time, which may explain why they produce the best Spanish literature.

■ ***Riqueza (wealth). It's hard*** to tell who has money and who doesn't in Madrid. Husbands will forego family medical insurance for a Rolex. Wives have to have a fur. But few rich Spaniards drive lousy cars.

■ **Sevilla.** Expo 92 there this year so not much work is being done. Spaniards like to think they like Seville but mostly they're scared *of its cliquiness.* The British are acceptable because the local aristocracy likes to show off in English learned from nannies. Very hot, quite good fun but, ultimately, provincial.

■ ***Theatre.*** There is some very good opera and traditional performance theatre in Madrid and Barcelona. One Problem: you can't go. Tickets are hard to get unless you queue at the right window for the half an hour on whatever afternoon they are on sale. Good concert seats always go to friends and family of the official body sponsoring it. A good hotel can fix most things, though.

■ **Understanding.** Make sure you understand what is being said to you. This is not London or New York. It isn't even Milan. "Yes, we must do business," at the end of the meet*ing does not mean the deal is* done. It means, er... who *knows* what it means. Keep that lawyer close by.

■ ***Vino.*** *Totally undiscovered* by the battalions of FT wine writers but thriving nonetheless. Spanish wines are as rich and rough and subtle as anyone could ever want them to be. Hardly any good ones get exported.

■ **"W":** Seven entries in my dictionary. One of them is *Windsurfista* (windsurfer). But Spanish is anglicising very slowly. There's *faxear* (to send a fax) and *chequear* (to check up on) and *zigzaguear* (to zigzag) but for the most part you have to be able to *defender* yourself in *Eppanol.*

■ **"X":** As in X-rated. Catholic Spain is one of Europe's most sexually active societies. Newspapers carry pages of "relax" ads. Supermarket-sized peep shows popping out all over Madrid.

■ **Yanquis** come back! Young Spaniards tried hard to dislike *America after Franco* died but have failed horribly. Even George Bush is popular here.

■ **Zimbabwe, Zambia and Zanzibar.** This is the foreign policy part. Spaniards steer clear of Africa and Asia. They're scared of the food, the water, the animals and not being able to answer back perfectly when spoken to in English by the locals.

ECONOMY

Ascent to Europe gets tougher

ALONG with most of its European Community partners, Spain has prepared a plan ahead of the Lisbon summit at the end of the Portuguese presidency showing how it proposes to converge its economy towards the targets set by EC heads of Government in Maastricht last December.

Unlike the rest of its partners, Spain is making a very big deal of its convergence plan.

To the finance ministry, finally given the freedom by Prime Minister Felipe Gonzalez to deliver some well-aimed hammer blows at an inflationary service sector, the plan is a once in a lifetime opportunity. To the unions, it has rapidly become the sum of all fears.

This is largely because the

The finance minister's hammer blows at inflationary practices have flabbergasted the trade unions

Finance Minister, Mr Carlos Solchaga, has refused to confine the plan merely to meeting the Maastricht targets.

Rather, the essence of his plan is not nominal, but what he calls real, convergence entailing, in other words, measures Spain would have to take in order to compete in an open market even if the EC did not exist.

These measures come at the end of a 46 page outline plan published in April and, naturally for a ministry which knows it is about to stir up a hornets' nest, some of the writing is vague.

It is, however, easy to cut through the fog.

● "Reinforcing the job-seeking process", says the most important heading. This quickly boiled down to two points. First, Mr Solchaga was going to cut back on unemployment benefits and, second, double the amount of time required in work in order to qualify for the reduced benefit.

In addition, an unemployed worker receiving benefit would have to take the first job on offer or have the benefit stopped.

For a socialist government even to contemplate such an attack on one of the citadels of the welfare state has flabbergasted the unions, who are now threatening fierce retaliation.

Mr Solchaga's response is simple. The unions were offered an opportunity to sign a three year wages pact last year and refused. And Spain's 16.3 per cent rate of unemployment is a sham and everyone knows it. At least a third of the unemployed work in the black economy and the system of paying incentives to industry to create jobs is being terribly abused.

● "Economic deregulation measures", says the next sub heading. The text blandly adds that "a good number of sectors which in the recent past have been inflationary have justified this by pointing to the existence of a collection of regulations and rules...which have erected entry barriers and the proliferation of agreements which tend to divide up the market, to fix prices and to limit output, distribution and investment.

Blood will flow here. Practically anyone who has a degree in Spain belongs to one kind or another of *colegio* which both protects their professional standing and limits their competitiveness. Thus, an architect living in Madrid and registered with the Madrid colegio will not be undercut on price by his fellows but he or she will not be able to bid for work outside of Madrid.

Pharmacists in Spain have one of Europe's most jealously guarded monopolies. The colegios are powerful lobbies and are bound to resist any attempts to strip them of the regulations that allow them to exist.

Nevertheless, Mr Solchaga has instructed a newly erected court at the industry ministry, the Tribunal for the Defence of Competition to spend this year pinpointing monopoly or restrictive practices among the professions and to report back in the final three months with recommendations about how to break them and, also, who should do it.

● Under "Liberalisation Measures" Mr Solchaga tacitly conceded that reforming the professions might take time. But, the plan insists, there are "some sectors in which reform cannot wait". Most of these tend to be transport or communications of some sort over which the European Community has already agreed liberalising directives but which Spain has been late in implementing – to Mr Solchaga's irritation. The most important, though, is the rapid dismantling of Telefonica's telecoms monopolies wherever they exist and the Government is about to grant new mobile operating licences to private bidders.

The money markets have been streamlined but ordinary bank customers have not yet benefited

● "Credit and insurance entities" announces the next heading.

Although Spain's financial markets have been greatly streamlined and liberalised in the past few years, "the priority now is to accelerate the transfer of the benefits of this greater economic freedom and competition to the customer". Anyone who has had to wait three weeks for a Spanish bank to move an international cash transfer from its foreign department to a usable current account will know what this is about. The government also plans to draft new laws forcing insurers to do away with small print clauses which often impose absurd conditions on possible claimants.

● "Public companies" is a bland enough introduction to another nightmare for the unions for under it Mr Solchaga announces a freeze, at current levels, of subsidies to the huge state industrial sector.

"This restriction will oblige these companies to substantially improve their management and, if this is not enough, to rescale their operations or, alternatively, raise capital in the debt markets or sell assets."

This is tough. Renfe, the state railway monopoly, lost more than $2bn last year. year. Iberia, the airline, has only made money once in the last five years. Any "rescaling" of operations – job cuts – could invite union response throughout the state sector.

● "Health". The health service is the public sector's fastest growing loss maker, as the nation's 17 autonomous regions develop their own health care systems. Mr Solchaga, as in the case of the unemployment cutbacks, is able to instruct most spending ministries on what to do with the money he gives them. He has therefore forced a sweeping managerial shakeup in health care. "The government considers it necessary to transform the current administrative model into a model of management services in which it is possible to identify the link between the quality of service and its cost." Thus state hospitals will soon become individually managed and responsible for their own budgets.

Obviously, hospitals will begin to look beyond Insalud, the central supplier of goods and services to hospitals, for competitors.

None of this has anything to do with Maastricht, but the Finance Ministry is adamant that the "real" convergence implied in the measures outlined at the back of its plan is the only way to guarantee that once Spain enters economic and monetary union, it can stay there.

Officials say the nominal convergence detailed in the plan is of minor importance, though this is probably bravado.

Fortunately, Spain has until the beginning of 1997 (the earliest date set for EMU) to bring its macroeconomic house into order. This is easily achievable even though, as officials admit, the plan sets out to deflate the economy while making it grow at least 1 per cent above the EC average every year for the next five.

The targets are nevertheless impressive. Total public debt will fall from 4.4 per cent of GDP now to 1 per cent by the end of 1996. The economy will grow 3 per cent this year (a wildly optimistic projection, many economists suggest) and still be growing 3.5 per cent by the beginning of 1997. Unit labour costs will be growing at 2.3 per cent by the end of 1996 compared with 6.3 per cent at the end of last year and the deficit in the current account of the balance of payments will have fallen from nearly 3 per cent of GDP last year to 2.3 per cent.

Scepticism about these figures is met with an indulgent smile at the ministry. As long as Spain grows more than the EC average, everything will be fine, comes the answer. If the five years since Spain joined the EC are any guide, then this is feasible, but the boom generated by adhesion is over.

Clearly, then, the Spanish are banking on their ability to hold their EC partners to a promise, made at Maastricht, to create a cohesion fund to increase financing to poorer Community members who demonstrate that they are making a determined effort to wring inefficiencies out of their economies.

The "real" convergence proposals are designed to show Madrid's partners that it is doing just that and that it is not simply coming to the table to beg for more.

But the Spanish have become alarmed at the reluctance of the Germans even to discuss implementing the Maastricht Treaty protocol dealing with cohesion. And even worse, the Portuguese presidency of the community for the first half of 1992 has refused to call a special meeting of EC leaders to discuss it. Spain had been hoping that Portugal, as a fellow poor southern member, would be interested in cohesion.

It seems, though, that as direct flows of EC funds account for about 5 per cent of Portugal's GDP (and less than 1 per cent of Spain's), Lisbon is not going to tamper too much with the current system. Worse, for Spain, is that Britain takes over the presidency from Portugal for the rest of the year and London is also highly unlikely to have cohesion near the top of its agenda.

But without the cohesion money Spain hoped would be forthcoming, its convergence plan begins to look extremely ambitious and Prime Minister Felipe Gonzalez is going to have to use all the charm he can muster to squeeze it out of his European community friends.

KEY FACTS

Area	507,750 sq. km.
Population	39.6m (mid 91)
Head of State	King Juan Carlos
Currency	Peseta
Average exchange rate	1990 $1 = 101.93 Latest $1 = 103.75

ECONOMY	1990	1991
Total GDP ($bn)	491.2	524.4
Real GDP growth (%)	3.7	2.5
GDP per capita ($)	12,467	13,242
Components of GDP (%)		
Private consumption	62.4	n/a
Gross fixed investment	24.6	n/a
Stockbuilding	1.4	n/a
Government consumption	15.2	n/a
Exports	17.1	n/a
Imports	20.5	n/a
Consumer prices (% pa	6.7	5.9
Unit lab costs (% pa)	7.7	6.5
Ind. wage rates (% pa)	8.5	9.0
Ind. production (% pa)	-1.0	-0.1
Unemployment (%)[1]	16.1	15.9
o/w male	11.9	12.0
female	23.9	23.0
% employed in agriculture	11.8	n/a
Reserves minus gold ($bn)	51.2	65.8
Narrow money growth (% pa)	26.5	14.9
Broad money growth (% pa)	15.7	15.1
Discount rate (% pa,year end)[2]	14.7	12.5
Govt bond yield (% pa,avg)[3]	14.6	13.0
FT-A index[4]	-24.9	12.8
Budget balance (% of GDP)[5]	-4.0	-4.3
Current account balance ($bn)	-15.58	-15.95
Exports ($bn)	55.59	60.07
Imports ($bn)	87.65	93.31
Trade balance ($bn)	-32.07	-33.24
Export volume (% change pa)	12.2	10.5
Import volume (% change pa)	9.2	10.9
Main trading partners (1990)	Exports	Imports
France (%, by value)	20.8	14.7
Germany	13.6	16.5
Italy	10.7	10.1
UK	9.0	7.2
US	5.8	8.3
EC	69.4	65.2

Source:IMF, OECD, EIU

Notes: (1) ILO standardised unemployment rate, per cent of labour force; (2) Bank of Spain intervention rate; (3) bonds exceeding two years maturity; (4) per cent movement at end year; (5)general Government financial balance

Private tv takes on the public networks

A national diet of movies and soccer

FROM A computer terminal at his secretary's desk, Juan Cueto is able to watch one of his fantasies slowly become real. He runs Canal Plus, Spain's only pay-TV channel, and the screen he watches gives him a real time count of the number of people subscribing.

The formula is simple. "Spaniards only queue for two things," he says. "Movies and football." And that is what they get on Canal Plus. By the end of this year, he says, Canal Plus will have won half a million subscribers and start making profits.

It is just two years since Spain licensed three new private television channels and, if one believes their managers, they are all very close to making money.

One, Tele Cinco – controlled by Silvio Berlusconi, the Catalan financier Javier de la Rosa and the Spanish charity for the blind, ONCE – already challenges the big state-owned networks with a brash mix of game shows, films and an increasingly good news service.

As a pay channel, Canal Plus is an outsider. Owned by Canal Plus of France and the publishers of Spain's biggest newspaper, *El Pais*, it is more easily managed and its finances more clearly definable.

The third new channel, Antenna 3, is generally reckoned to be the most vulnerable financially. Concentrating on a more journalistic talk show format has limited audiences but, says its managing director, Mr Manuel Martin Ferrand, the channel will make about $4m this year. Antenna 3 is controlled mainly by the Godo family, which owns Barcelona's biggest newspaper, *La Vanguardia*, and its future has been boosted recently by the arrival of of rich and powerful new shareholder, Banesto, one of the country's big five commercial banks.

At the moment, signals from these new channels reach about 80 per cent of Spain's television audience and this will rise to 90 per cent by the end of 1993. But there, possibly, the good news may end.

Both Tele Cinco and Antenna 3 face a huge hurdle in the form of the State for before granting private sector licences Madrid set in motion one of Europe's most ambitious and expensive public television expansion programmes.

This involved allowing the country's 17 autonomous regions to create their own television channels which, like the two big national state-owned channels TVE1 and TVE2, would finance themselves through advertising.

That might have been less noteworthy during the 1986 to 1989 boom when advertising was growing sharply, but total TV advertising revenues grew just $30m to $1.96bn between 1990 and last year.

Public television channels controlled by regional governments last year received $500m in subsidies

Television swallows up about 33 per cent of advertising spending in Spain and the State, in addition to being the biggest TV advertiser, is also its biggest consumer.

Television channels captive to the parties that rule in the regions have been established in Catalonia (which has two), Andalucia, the Basque Country, Galicia, Valencia and Madrid.

Collectively, they form one of the biggest drains on the Spanish public purse and last year were paid direct subsidies by their local governments of $500m. On each channel, the biggest advertiser was also the local government, which might be counted as a hidden subsidy. By some independent reckonings, these channels may be being subsidised by close to $1bn a year.

The regional channels took 15 per cent of the Spanish television advertising cake last year in what all of the new private channels (including, from a political point of view, Canal Plus which carries no advertising) privately lament as an insurmountable barrier.

It is quite likely that more regional channels will emerge as regional political leaders succumb to the lure of controlling such a powerful means of communication. Subsidies to the channels have grown so fast that even the OECD made an oblique criticism of them them in its last report on the Spanish economy.

But, for the private channels, the nightmare does not stop there. TVE1 and TVE2 take a full 56 per cent of the TV advertising market. Together, these channels, the oldest in Spain, give new meaning to the now discredited idea that commercial television is a licence to print money.

They lost more than $400m last year and recently announced that between 1992 and 1995 they would lose another $1.7bn.

This year or next, for the first time, TVE may go to the markets to raise up to $300m to finance itself but they are too valuble a political tool of whatever Government runs the country to be allowed to wither. Private channels privately accuse the public operations of fierce price cutting, meanwhile. In fact, if official tariffs had been applied, TV advertising in Spain would have risen 26 per cent last year.

"We can live with this competition from the State but we cannot progress much," says Mr Martin Ferrand at Antenna 3. Fortunately for him the Godo family's newspaper and radio operations make negotiating with agencies easier.

Spain, meanwhile, has still not implemented the European Community broadcasting directive limiting advertising during films – which always attract the highest audiences in Spain – to just one break every 45 minutes. When it does, something – private, regional or national – will have to give.

Ombudsman: this country lives again

□Continued from Page 2

them a piece of paper and tell them to see a specialist in three months. Our public administration has many old vices. It is centered on itself and not connected to the people.

But people know how to complain, which is an important indication of a civic culture. People who come here are desperate. The administration can drive people crazy.

Where has Spanish democracy implanted itself most firmly?

In the municipalities. The town halls of Spain, which were once very poorly run, are become very efficient. They have moved very close to their citizens. Especially in small towns, the mayors are in constant contact with the people. For that reason municipal life is hard; the people are on top of them all the time.

There is much discussion about corruption is Spain. Is it universal in public life?

In the last few years you could say that a money cult has been let loose among the people. They need to spend, to consume, to show off. This has created a consumer culture and the idea that you can be measured by your financial success. It has affected ordinary people, industry and commerce. Many people are living beyond their means and the money phenomenon has made people lose their respect for work. This has created the sensation in some parts of society that it is better to be unemployed than to work. We need to recover some old values, of work, of seriousness, of honesty.

The Constitution gives political parties a presence in a very wide range of Spanish institutions – from broadcast media to savings banks to the selection of judges. Is this not dangerous?

The idea that everything political is corrupt or negative is wrong. What matters is transparency in how institutions work, how people get into them and how they take decisions. Civil liberties are better established here than in most of Europe. People speak here with a freedom that never existed before. The Spanish press is one of the freest in the world. In the dictatorship everything depended on the central power. Not a school was built, nor a road, nor a business created, nor a doctor consulted, without a nod from Madrid.

Is Spain still a Catholic country?

Spaniards have become very tolerant but everyone still carries cultural and sociological traces of religion. The other question is whether they practise. But they are respectful and do not attack the religious feelings of others. Popular fiestas and important family events continue to be linked to religion for all of our lives.

France, Italy and Germany have all experienced outbreaks of feeling against immigrants. Will Spaniards prove to be racist when immigrants begin to arrive here in great numbers?

I don't think we are different and we have already experienced outbreaks of violence against Gypsies. Racism is not a problem yet but as a society grows richer it becomes more protective of its interests and shows less solidarity with others. But we were once a nation of emigrants and we should be more understanding. I don't know what will happen when we are put to the test.

What does 1992 mean for Spain?

It is profoundly important. We are certifying the fact that we have come out of the tunnel of a history as a paralysed country. This country no longer wants to close itself off from the Pyrenees down. We are no longer what people thought. For years people carried a photograph of us fixed in time with our carts and donkeys. This is over now. This country is alive.

SINGAPORE

The economy: Breaking a high-energy diet is not easy: Page 2

Politics: Keeping their country ahead in the race of nations: Page 3

Singapore has become not only a regional economic power but also a country poised to jump into the very top league of industrialised countries. But behind the image of achievement and efficiency there are problems. **Kieran Cooke** reports

Victim of its own success

SINGAPORE is short of labour. It is short of land. But it is not short of statistics.

Officials quickly deluge the visitor with sets of figures to illustrate that the island republic, only 573 sq km in area and with a population of less than 3m, has become not only a regional economic power but also a country poised to jump into the top league of industrialised countries.

GNP per capita is second only to Japan in Asia. The economy grew by 6.7 per cent last year and is forecast to grow – even in the midst of a recession in key western export markets – by between 4 per cent and 6 per cent this year. Singapore's trade is 3¼ times GDP. It has no foreign debts and official foreign reserves of $35bn.

Singapore is the world's biggest container port and the third-biggest oil refining centre. It is at the cutting edge of technology in the electronics, medical equipment and pharmaceuticals industries. It produces more than half the world's computer disc drives. It is a regional centre for the shipbuilding industry. Each year more than 5m tourists arrive in Singapore.

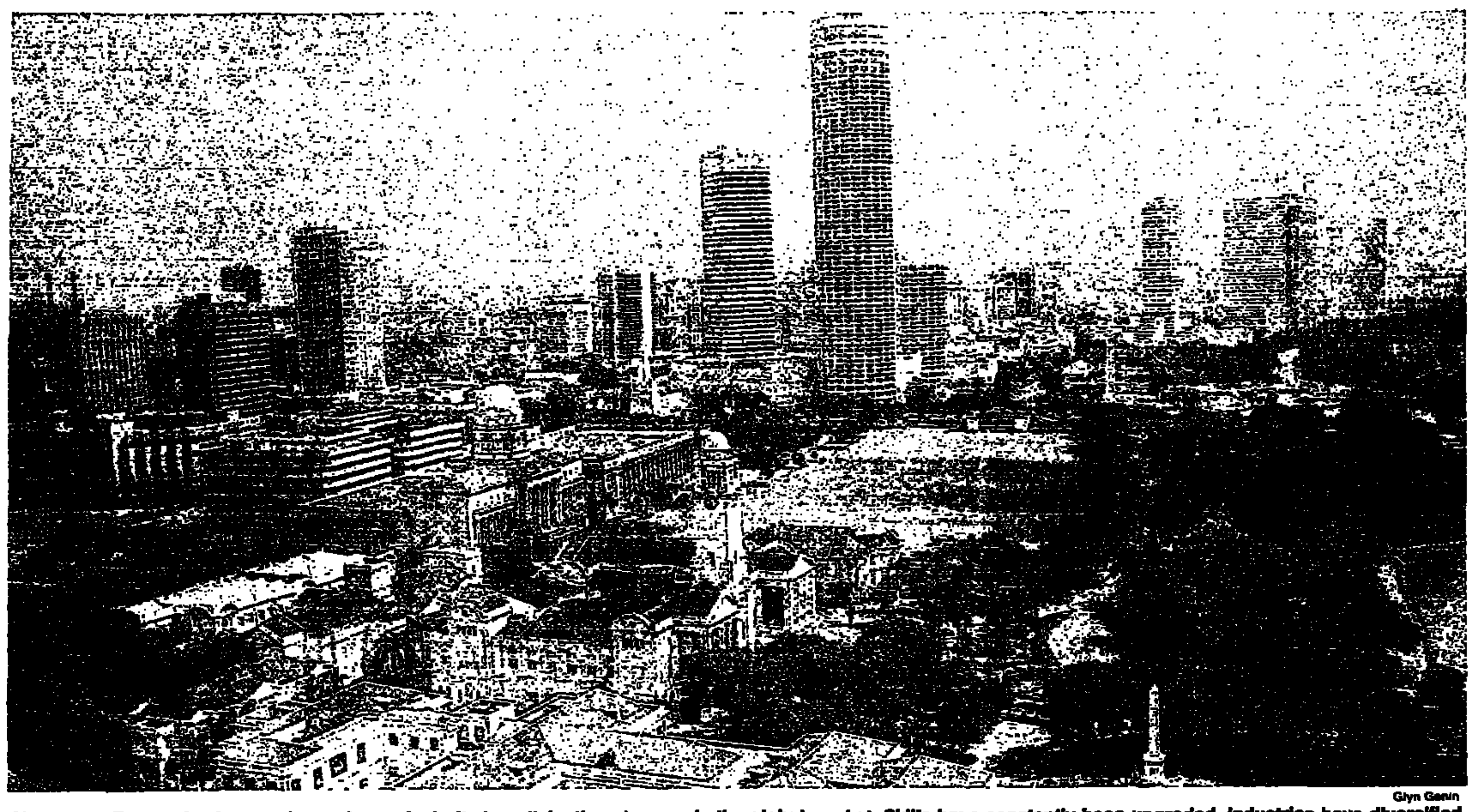
More than 3,000 foreign companies have set up operations in Singapore. There is full employment and more than 70 per cent of the population own their own apartments or houses. The city state prides itself on its clean and green image. Most of all it is proud of its efficiency.

All this in a city which in 1960 was described by a travel magazine writer as being a cesspool of squalor and degradation. "The Chinese, who constitute the main current of the city, live in utter filth and poverty" the writer noted. "Their poverty is phenomenal. One must see with his own eyes to believe it."

There have been changes no less phenomenal over the years. But part the carefully washed and ironed curtains of Singapore achievement and efficiency and there are problems.

Mr Goh Chok Tong took over as prime minister from Mr Lee Kuan Yew, Singapore's leader for more than 30 years, in late 1990. The baton change has not been an entirely smooth one. Mr Goh has found it difficult to escape from the shadow of Mr Lee. Brigadier-General Lee Hsien Loong, Mr Lee's son who is crafted in his father's tough, no-nonsense image, exercises considerable influence as first deputy prime minister.

The ruling People's Action Party (PAP), still headed by Mr Lee, performed badly in a general election last August. There are indications that portions of the Chinese working class, once solidly behind the PAP, feel they have missed out on Singapore's economic miracle. There are now four opposition members in the 81-seat parliament – a shocking state of affairs for a government that has traditionally been loathe to listen to any opposing voice.



Glyn Genin

Singapore: Economic planners have shown dexterity in anticipating changes in the global market. Skills have constantly been upgraded, industries have diversified

Singapore remains one of the world's most regulated societies. Its politics, the way its government exercises control over virtually every aspect of life, is often likened to the now defunct communist regimes of eastern Europe. The difference is that Singapore works, remains staunchly anti-communist and has been able to give many of its citizens financial rewards only dreamt about in eastern Europe.

But the country has become a victim of its own success. Singapore's new leadership says it is now encouraging people to make their own decisions and do more for themselves. "We recognise the government has an overwhelming presence in the economy and in fact in every sphere of a Singaporean's life" says the prime minister.

"In recent years we have been trying to shrink the presence of the government... you can see there is uncertainty in people's minds. They want the government to be there as a safety net or a guiding hand or to do things for them... we are at this stage of development."

One of the preoccupations of Mr Lee during his last years in power was that Singaporeans, spoiled by success and an excess of consumer goods, were going "soft". Some managers complain that it is difficult to find staff to take responsibility: too much control has bred a generation who pass decisions upwards rather than take responsibility themselves. Many of Singapore's companies – capital rich and with little room to expand at home – have been pampered by government support and still have to learn to compete internationally.

Singapore aspires to becoming a regional communications hub – what its futuristic planners describe as a "global city". But the island republic remains a rather inward-looking society. Its leaders do not take kindly to criticism from outside. The local media is exceptionally mild mannered while foreign publications find it difficult to operate under various government restrictions.

The government stresses that Singapore is an Asian or Oriental society. It remains suspicious of what it considers to be western influences such as pornography and divorce. Yet marital breakdown is an everyday reality and divorce rates have doubled over the past 10 years. When film censorship was recently relaxed people flocked to see a series of mildly pornographic films – not from the west but Chinese films made in Hong Kong.

In the broader regional sphere, Singapore emphasises the interdependence of the countries of the Association of South East Asian Nations, (Asean). Says the first deputy prime minister: "Our interest is... in making Asean a stronger raft to attach ourselves to."

It seems Singapore feels that raft is still not entirely stable. It guards itself against the effects of any regional conflicts by maintaining a highly sophisticated and well-armed military machine. "We should be like the poison shrimp, with bright colours to warn others of the poison we carry," says a government policy handbook.

Singapore's economic planners have shown considerable dexterity over the years in anticipating changes in the global market. Skills have constantly been upgraded, industries have diversified. Ten years ago, financial services accounted for only 7 per cent of GDP. According to the Monetary Authority of Singapore that figure is now 17 per cent. Singapore's centralised planning and the efficiency of its system has made Singapore top of the league with many multinational investors.

But economic success has bred serious labour shortages. Singapore has had to import upwards of a 250,000 foreign workers to work mostly in the lower-paid sector.

"Job hopping" has become commonplace, particularly in the electronics sector. Recently, the government disclosed that S$1bn of taxes remained uncollected – due to a chronic shortage of tax officers.

Home-based skills are not plentiful enough to fill demand. More automation has been one response, but labour shortages could continue to be a constraint on growth in the years ahead.

Another constraint is land: Singapore is literally running out of space. It is therefore giving very energetic backing and financial aid to the development of nearby Batam island in Indonesia.

Mr Richard Hu, Singapore's finance minister, feels the economy has now entered a more mature phase of lower but more sustainable growth.

"We are comfortable with a pause," says Mr Hu. "We have been growing too fast over the past three or four years."

But rising wages at home and greater competition from other countries in the region pose a problem.

"We are not only competing now against the likes of Hong Kong, Taiwan and Korea but moving very fast up the ladder are Thailand and Malaysia," says Mr Hu.

"More worrying in the long term is the south China area – it is beginning to nibble at the lower levels of our exports. We have to move upstream as quickly as possible."

Singapore's leaders pride themselves on their vision. They have identified many of the problems that lay ahead.

Even the more pessimistic government forecasts plan on annual economic growth of well over 5 per cent over the next three years, rising to more than six per cent annually thereafter.

By an unspecified "Year X" Singapore plans to increase its area by 17 per cent through reclamation and landfill.

To cope with labour shortages and the effects of an ageing population, bigger families are encouraged, particularly among the more educated.

Sceptics might question some of Singapore's aims. But its leaders are determined. The prime minister says Mr Lee Kuan Yew taught him never to be afraid to go against the conventional wisdom.

"People may laugh, they may snigger," says Mr Goh "But we must carry on. We know our plans can be effective."

□ THE ECONOMY

Breaking a high-energy diet is not easy

MANY Singaporeans, led by nervous stock market speculators, have become more gloomy this year about the country's economy than the economic fundamentals themselves appear to warrant.

They justify their fears by recalling the recession of 1985 and 1986, by reminding themselves of Singapore's dependence on a slow-moving world economy, and by pointing to the government's latest (and reduced) forecast for growth of between 4 per cent and 6 per cent this year, compared with 6.7 per cent last year and 8.3 per cent in 1990.

This sense of foreboding is shared neither by foreign businessmen nor by the government. And it is not reflected in the latest surveys of manufacturing and service companies on the island, which broadly predict stable business conditions for the next few months. The important disk drive industry, troubled last year by falling demand, expects business to improve.

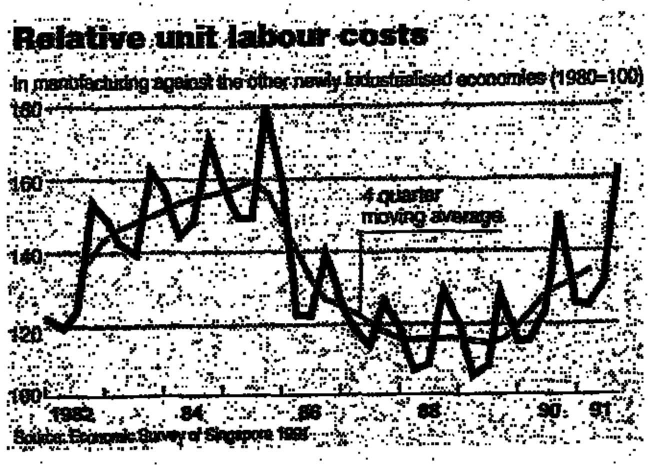
More than 3,000 multinational companies have invested in Singapore

Mr Richard Hu, finance minister, regards the moderation of Singapore's growth rate as desirable and inevitable as the economy matures. "There were clear signs that we had been growing too fast; quite clearly signs that we were overheating," he told the Financial Times in an interview.

"We have been looking to get away from an 8-10 per cent growth diet to 5-6 per cent growth," he said. "But breaking a high-energy diet is not easy. Manufacturers and others get used to it."

Not everyone is going on a diet anyway. Motorola's plant, for example, has been working seven days a week making pagers and other data products to supply a rapidly-expanding Asian market and to meet North American demand which is still growing at 5-7 per cent a year.

Singapore's strategy of marketing itself as a regional service hub focusing on advanced electronics, aerospace and other high-technology industries, and farming out labour-intensive work to neighbouring countries such as Indonesia, shows no sign of faltering. More than 3,000 multinational companies, attracted by the efficiency of the port, the airport, the telecommunications network and the rest of the island's infrastructure, have invested in Singapore, and the government hopes to attract more from Hong Kong with the approach of Chinese rule there.



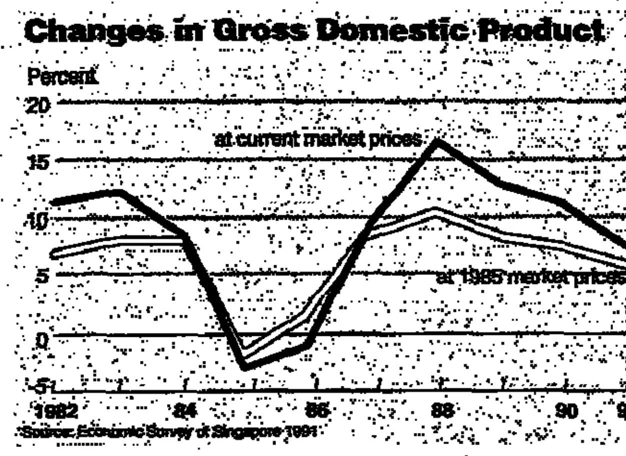
Motorola is considering making Singapore its regional headquarters – it would benefit from tax incentives under the Operational Headquarters programme - and already uses Singapore government subsidies to train its research and development engineers to masters degree level.

Unit labour costs may be rising, but as a proportion of product content they are falling, says Mr Robert Becknell, Far East vice-president responsible for Motorola's paging and telepoint systems. "We are evolving into a stage where labour is a very small part of our total cost," he says.

"The designs are becoming more sophisticated. The manufacturing process is becoming highly automated. The people who need to work in the factory must be of higher and higher educational levels all the time. Technical support must be better."

Finance minister Richard Hu: concerned about labour costs

With its well-planned infrastructure and increasing technological sophistication, Singapore is ahead of its partners in the Association of South East Asian Nations (Asean) such as Malaysia, Thailand and Indonesia. But the government is still concerned about Singapore's competitiveness relative to the other newly-industrialised economies (NIEs) – Taiwan, South Korea and Hong Kong. Unemployment remains minimal in Singapore, and real wage growth amounted to 7.6 per cent in 1991, while labour productivity grew by only 1.5 per cent.



"This marks the third year in a row where real wage growth has exceeded productivity gains," Mr Hu said in his budget speech, noting with concern that the country's unit labour costs in manufacturing rose by 7.5 per cent compared to the other NIEs. "This brings our relative competitiveness position to that in 1982 and 1983," he said.

Although the strength of the Singapore dollar is partly to blame, the government is anxious to ensure that its workforce remains competitive and has increased funding for education and training, and attempted to encourage foreign companies to set up research and development groups in Singapore.

Singapore has made its name by planning economic development with ruthless efficiency from the centre and by encouraging foreign companies to invest in the island. But small companies complain that they have been ignored in favour of the big multinationals, and Singaporeans are afraid that over-regulation and prosperity have deprived them of the sort of entrepreneurs for which Hong Kong is famous.

The cautionary characteristic of Singaporean business has blunted the government's attempts to persuade local businesses to invest surplus capital abroad, although Singaporean traders and investors have started to make inroads in Cambodia and Vietnam.

For the energetic Mr Philip Yeo, chairman of the Economic Development Board, Singapore has simply become a victim of its own success.

"The more you educate a man the more risk-averse he is," he says, suggesting that the best way to encourage the entrepreneurial spirit is to train too many people or to bring them into the country from outside.

"If PhDs have no job they start doing something. Entrepreneurship comes from adversity," says Mr Yeo. "So long as we have full employment in Singapore, there's no entrepreneurship... That's the disadvantage of Singapore. We've done too good a job."

Victor Mallet

□ INFORMATION TECHNOLOGY

A computer-driven future

WITH characteristic determination and meticulous planning, Singapore has seized on the computer as a driving force for its future economic development.

The government believes that advanced information technology should be applied in liberal doses to everything from education and domestic road traffic control to international trade, both to improve efficiency within Singapore and to enhance the island's role as a commercial and service hub for south-east Asia.

A shortage of skilled workers has given an added impetus to the computerisation strategy. While the Economic Development Board seeks to attract high-technology hardware and research and development business to the country, the National Computer Board (NCB) is charged with promoting the use of computers, introducing labour-saving software and linking parts of the public and private sectors into computer networks.

The success of the three-year-old, S$20m TradeNet system for dealing with trade documentation – one of those ideas which is blindingly obvious once it comes into being – has encouraged the development of other networks along similar lines.

Some countries would have been well satisfied with Singapore's previous ability to process customs and trade documentation in a day or two, but TradeNet went further. By linking the 20 relevant government departments with 2,500 importers, shippers and other private-sector companies, the system has cut approval times to as little as 15 minutes.

About 95 per cent of trade documentation is now processed in this paperless network, saving the time and money once spent on messengers' journeys from one government office to another. In some routine cases, no human intervention is required as the various official approvals are collected by computer and delivered to the applicant. DHL, meanwhile, has established a time-saving link with Singapore customs – allowing customs officers to access the company's electronic manifest and pre-select items for inspection or payment of duty.

The next step is to link TradeNet internationally, and Singapore is already discussing the issue with US customs. "Imports and exports are extremely information-intensive, and this is critical for us as an international trading centre," says Mr Ko Kheng Hwa, NCB general manager, recalling that trade amounts to more than three times the country's gross national product. "We can further improve our competitiveness if we make the trading system more efficient."

The NCB has also encouraged the use of "expert systems" to manage ship movements and cargo handling at Singapore's busy container terminals, reducing turnaround times and freeing skilled workers for other tasks. Another of the attractions of Singapore for multinational companies is the efficiency of its domestic services and its infrastructure and here, too, computerisation is making its mark.

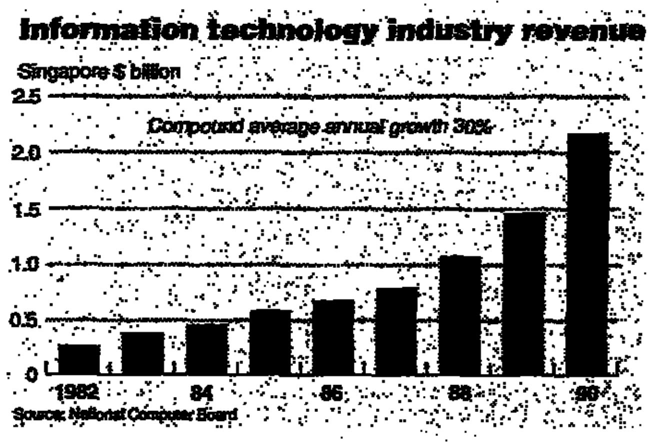
Within five years, the government hopes to implement a flexible road-pricing system whereby drivers would be charged for using busy roads by passing an electronic toll gate – without stopping or slowing down. In the immediate future, Singaporeans should be able to bid for car permits (vehicle imports are restricted to prevent congestion) by using existing automated bank telling machines in the street.

TradeNet has been followed by MediNet, allowing most Singaporeans to receive approval for medical benefits within hours rather than days. LawNet, allowing the rapid transfer of legal documents and information about the courts, is due to follow.

The NCB manages civil service computer operations and says it has reduced the required number of civil servants by more than 5,000 by pooling information and improving efficiency. Data about land usage, for example, is already centralised and the country's schools are linked through the Education Ministry headquarters. An official audit showed that there were returns of S$2.71 for every dollar spent on information technology. Ultimately, NCB officials aim to provide citizens with a "one-stop, non-stop government service" for routine documentary requirements.

Glyn Genin

Expert systems manage ship movements and cargo handling



Asked about the risks of losing the human touch – a common criticism of the Singaporean vision of the future, not to say the present – NCB officials acknowledge that the establishment of computer networks is easier in a country where pervasive state intervention is already accepted as a way of life. But they also point out that standing in a queue to obtain some dreary official document is hardly a humanising experience.

The idea of computerisation, Mr Ko says, is not simply to gather or pump out more information but to free people from routine tasks so they can do something more useful.

Singapore's small size and excellent telecommunications systems have made it the ideal testing ground for computerisation, and computers have allowed it to transcend the island's physical limitations, which restrict more traditional economic activities such as manufacturing or agriculture. Singapore, for instance, is now the fifth-largest centre in the world for foreign exchange trading and it is busy attracting new investments from data handling businesses such as Reuters.

"Our objective is to create an intelligent island in Singapore," says Mr Ko, "where IT (information technology) is used in almost every facet of our life." To that end, the NCB co-ordinated a blueprint for the future known as IT 2000, which aims to increase the number of graduate-level computer professionals in Singapore to 35,000 by 1999 from the current 13,000.

"Singapore has played the role of a switching centre for goods, and lately for services, even for people," says Mr Ko. "In the next stage we want to be a switching centre for information and knowledge."

Victor Mallet

□ FOREIGN AFFAIRS

Political maturity needed

The lessons for small nations are written large in the history books. Kuwait, Croatia, Sri Lanka, Cyprus. The roll call of lost independence, civil war, foreign domination, even worse. And Singapore? This rich, satisfied society of ours? Can we expect it all to last forever?

SINGAPORE'S anxious perception of itself as a rich but vulnerable mini-state among neighbouring giants is clear from the words of the government newspaper advertisement above. The text goes on to warn against complacency and to emphasise the need for vigilant armed forces and compulsory national service. Singapore's achievements, the advertisement says, are "worth a few days' mud and sweat".

The government went out of its way to underline that message in February by commemorating the 50th anniversary of the ignominious British surrender to Japan's invading army, allowing the older generation of Singaporeans to remind the young both of the atrocities committed during the Japanese occupation and of the dangers of unreadiness.

With its Israeli-style strategy of "Total Defence", involving a core of professional servicemen and a pool of reservists, Singapore is immeasurably better equipped than Kuwait to resist an invader. But like Kuwait, Singapore knows that small countries sometimes need skilful foreign policies and powerful friends from far away.

For all its hawkish anti-communism, Singapore therefore viewed the end of the Cold War and the partial American retreat from the western Pacific with concern, fearing that a military vacuum would eventually encourage regional powers such as Japan and China to flex their muscles.

Singapore concluded that it would benefit from a closer military relationship with the US, although it had to tread carefully to avoid provoking anti-western rhetoric in Malaysia or Indonesia.

In November 1990, the US and Singapore signed a memorandum of understanding allowing US forces limited access to Singapore's military facilities. In January this year, US President George Bush announced plans to extend that agreement by moving a naval logistics unit for the US Seventh Fleet to Singapore from the Philippines, where the Subic Bay US naval base is about to close.

Both sides have taken pains to play down the move, insisting that it falls under the provisions of the 1990 memorandum. The US says only 135 staff are assigned to the unit, known as Commander Task Force 73, and Mr Goh Chok Tong, the Singapore Prime Minister, said at the summit of the Association of South East Asian Nations (Asean) in January: "There's no need for anybody to be alarmed."

Brig-Gen Lee Hsien Loong, deputy prime minister and minister for trade and industry, spelt out Singapore's worries about Washington's re-evaluation of its role in Asia in a speech to foreign journalists in February.

"As against the cold war tensions, the new superpower alignment is incomparably a change for the better," he said. "But we cannot assume that things will automatically work out right for our region. A smooth evolution from the current state of affairs is necessary, to give the region time to adjust and find a new equilibrium. This will avoid tensions which would otherwise put off investors, divert resources and hinder growth."

Sure-footed on economic affairs and on the part to be played by the superpowers in south-east Asia, Singaporean diplomacy has proved slow to respond to the violence in Burma, despite Singapore's repeated statements about the importance of regional stability for economic development.

The six-nation Asean summit, held in Singapore, reached agreement on mutual tariff reductions leading to an Asean free trade area, but ignored the atrocities being committed by the ruling Burmese military junta. Singapore's success in keeping Burma off the summit's agenda now looks like a hollow victory.

US President George Bush: plan to extend military pact

A mere six weeks after Mr Goh answered a question about Burma by saying: "We do not interfere, we just have our bilateral contacts", Mr Najib Razak, the Malaysian defence minister, declared that Asean should take a unified stand against Burma for mistreating its Moslem minority. Indonesia also expressed its concern about the flight of Burmese Moslems into Bangladesh.

Singapore, which sells weapons to Burma and acts as a broker for other arms manufacturers, seems to have been the last Asean country to see that the flood of refugees from the country and their stories of persecution at the hands of Burmese troops were bound to be seen as a threat to regional stability and a provocation for Islamic activists.

The European Community had already begun to take a tougher line on human rights and environmental issues in its trade negotiations with Asean. Western officials remain unimpressed by the Singapore argument that the West is trying to impose its political views on Asia. The issue of basic human rights, they say, should not be confused with arguments about the relative merits of different political systems. "What we're talking about is the UN charter," says one Western diplomat in Singapore. "It's got nothing to do with democratic institutions."

Foreign critics believe that Singapore has yet to find the political maturity to match its economic prowess and its growing international responsibilities.

At one moment, the Singapore government refuses to confront the issue of its relations with Burma, declining to comment on the internal affairs of another country; at the next, Mr Lee Kuan Yew, former Prime Minister and Senior Minister to Mr Goh, is giving Singaporean journalists a forthright lesson during a trip to Pakistan on the failings of the adversarial Pakistani political system.

"There's constant sniping, barrage after barrage," he told them in Islamabad last month. "After the sniping is over, then endless feuding." True, no doubt, but not the sort of critical tone which Singapore is yet prepared to welcome from a foreign visitor commenting on its own affairs.

Victor Mallet

PROFILE

Further expansion possible for Glaxo

IF YOU are one of the millions of people round the world who suffer from peptic ulcers then there is a good chance that the treatment you take is manufactured in Singapore.

Zantac, the ulcer treatment tablet made by the UK pharmaceutical giant Glaxo, has an estimated 40 per cent of the world market for such drugs. Glaxo describes Zantac as the world's best-selling medicine, with sales of £1.6bn in the year to June 1991. Singapore produces the ingredients for more than 70 per cent of Zantac's worldwide sales.

Glaxo has been in Singapore since the late 1940s but has only been manufacturing in the island republic since the early 80s. The specialist ingredients for Zantac arrive in Singapore by ship from Europe and are then manufactured into powder form at Glaxo's plant in the Jurong industrial estate before being air freighted out in drums and made up into tablets, packaged and distributed in the various markets around the world.

"Back in the late 70s, Glaxo decided to go global and Singapore was chosen as the best location for manufacturing," says Dr Alan Catterall, managing director of Glaxo's Singapore operations. The success of the Singapore plant is due to success of Zantac. Nearly 50 per cent of Glaxo's total sales now come from Zantac.

The highly-automated Singapore plant started operations with 120 workers; there are now 300. A new plant is being built on an adjacent site wich will employ an additional 170 workers to manufacture the active ingredients for a new range of drugs.

The efficiency of operations at Singapore's docks are essential for the smooth running of the Glaxo plant. The expansion of Singapore's Changhi airport and the good connections available are also key factors determining Glaxo's expansion in the island republic.

But like many companies in Singapore, Glaxo now finds it difficult to recruit workers. "The labour market is very tight," says Dr Catterall. "We are now having to look around the region for skilled people, or recruit them from Europe."

Glaxo feels these staff problems will be overcome and does not rule out further expansion plans: "It's things like the support services that are available here that make the difference," says Dr Catterall. "If one of our highly complex machines breaks down someone will be out here to fix it in under half an hour. Elsewhere in the world, it might take 24 hours and valuable production time would be lost."

Kieran Cooke

Challenges for the prime minister

In an interview, Mr Goh Chok Tong, Singapore's prime minister, talked about some of the challenges he faces and the changes he is trying to bring about in Singapore society.

On the legacy of Lee Kuan Yew: "Mr Lee was of course exceptional. His personality was such that he was totally dominant. In my case it's different.. I'm not Mr Lee so I do things my way which is more low key, a lower profile kind of leadership."

Singapore society: "We recognise the government has an overwhelming presence in the economy and in fact in every sphere of a Singaporean's life. So in recent years we have been trying to shrink the presence of the government... you can see there is uncertainty in people's minds. They want the government to be there as a safety net, or a guiding hand or to do things for them.

"At the same time they also dislike the presence of the government in their daily lives. We want to get people to move out on their own and do more for themselves. They want it but are not sure that they can succeed. We are at this stage of development."

The results of the last election: "Few people would quarrel with the idea of a more open style of government and more participation by the people provided at the end of the day the government is decisive...

"But their real concern is Are costs going up? Are they going to do better? Will their children have a good education? Are they missing out on economic progress? That's the signal of the way people voted."

Singapore's military: "To be able to defend ourselves in one day of battle we require many years to build up an army... I always imagine Singapore to be a very small state which any adventurer could grab with one hand. Either you arm yourself to the extent that you can deter any threat or you don't do so at all – it's not worth spending the money."

The future: "I myself prefer a more ordered, harmonious society, a society that is regulated. At the same time we should, where we can, give people more choice – on schools, on health, on arts, on culture. "We are now at a stage when we are trying to have new out of bounds markers, when we are trying to widen the fairways... but it's an area where we would rather be cautious than adventurous."

Kieran Cooke

Lee Kuan Yew (right) with his successor, Prime Minister Goh Chok Tong, in November 1990

POLITICS

A softer approach

SINGAPORE'S leaders describe themselves as a team determined to keep their country ahead "in the race of nations".

In late 1990, Mr Lee Kuan Yew, in power for more than 30 years, handed the baton of office over to Mr Goh Chok Tong. Mr Goh called on Singaporeans to support a new generation of leaders who would build a fit, cultured but rugged society. "Together", said Mr Goh, "we will run the next lap."

During his first months in power, Mr Goh sought to establish his own style of leadership. The stern, authoritarian approach of Mr Lee would be replaced by a softer style: Mr Goh talked of being more accommodating and of the need to build a consensus.

There were some small signals of change. Rules prohibiting nude scenes in films were relaxed. Some mild satire of Singapore's leaders was allowed – including the sale of a book of cartoons entitled "Hello Chok Tong, Goodbye Kuan Yew". The press indulged in some slight criticism of government policies.

Last August, Mr Goh called an election – to establish his leadership credentials at the polls and also to win backing for his new more open style of government. The results were not good for either Mr Goh or the People's Action Party, in power since Singapore's independence. The PAP's vote shrank to 61 per cent – the lowest the party had polled since 1968. The two opposition parties, the Singapore Democratic Party and the Workers' Party, won four seats, compared with only one at the last election in 1988.

The election results sent shock waves through a governing team that has always viewed any opposition or dissent with acute suspicion.

Some members of the government interpreted the results as a sign that the conservative Singaporean electorate was not in favour of Mr Goh's more open way of doing things. On the other hand, some analysts felt the PAP could have lost more votes if Mr Goh had not embarked on his strictly limited glasnost policy.

More seriously, there were signs that the PAP had lost support among the Chinese working class – its traditional support base. Mr Lee, still senior minister and head of the PAP, felt the government had neglected the concerns of this group. "I think it was a sense of being squeezed out of the mainstream, that they were no longer getting the kind of attention that, as the majority, they should have.. I think that caused the switch," said Mr Lee.

The opposition only fielded candidates in a limited number of constituencies

Mr Goh acknowledged that the PAP had become too remote and should strive to be less elitist.

Part of the reason for the PAP's poor showing in the August election was also due to clever opposition tactics, particularly by the Singapore Democratic Party which won three out of the four opposition seats.

The opposition only fielded candidates in a limited number of constituencies, thus ensuring the continuance of the PAP in power. Voters were offered the chance of registering their dissatisfaction without threatening the government's survival. "The voters want to keep the PAP in power, but they also want a strong opposition to keep an eye on the government," says Mr Chiam See Tong, leader of the Singapore Democratic Party. "It is a sign that Singapore's democracy is growing up."

The next challenge facing Mr Goh is a series of by-elections due to take place in the coming months. Among those standing is likely to be Mr J. B. Jeyaretnam, the leader of the Workers Party who has been disqualified from parliament for the past five years.

If Mr Jeyaretnam wins a seat and the PAP once again loses votes, then Mr Goh would be under considerable pressure from the more hard-line section of the party led by Mr Lee Hsien Loong, deputy prime minister and son of Mr Lee Kuan Yew. Another possible contender for power is Mr George Yeo – like Mr Lee junior an army man – at present minister for information and the arts.

But Mr Goh is a political fighter and he can be tough. As Mr Lee's right hand man for many years, he played an active role in monitoring dissent in Singapore.

"If people behave in a manner that will threaten the wider interests of Singapore," said Mr Goh recently, "they will feel the firm smack of the government."

Kieran Cooke

FINANCIAL SERVICES

Performance slumps

THE financial services sector was unable to sustain its reliable performance of the previous years. Its growth in 1991 slumped to 2.9 per cent against 19 per cent in 1990.

The worldwide consolidation in international banking activities and financial risk management business had affected Singapore-based foreign institutions' offshore lending activities and foreign exchange business.

There were mixed signals about business expectations for the second and third quarters, with commercial banks and finance companies pessimistic while stock and bond brokers were more optimistic. A recovery and rise of the financial futures market has been the silver lining.

Despite their gloom, the so-called Big Four local banks are meeting and beating analysts' forecasts of record profits for 1991 despite slower loan growth and interbank rates dipping below fixed deposit rates. So far, state-linked DBS Bank's earnings have leapt 19.4 per cent to S$278.4m in 1991, Overseas Union Bank's net after-tax profits expanded 14.3 per cent to S$70.7m, while OCBC Bank forged 20.2 per cent to S$168.3m.

OUB attributed its results to better interest margins while DBS Bank disclosed net interest earnings at a record S$264m in the second half-year. Interest spreads have widened since January to 2.75 points, say analysts. Brokers Hoare Govette note that the contraction of Asian Currency Unit assets, a big factor in the slowdown, had little effect on local banks' profits. It added that if the stock market volume continued to pick up, non-banking services such as securities trading should grow. And, with their capital adequacy ratios exceeding 12 per cent, the banks can enlarge their international lending.

Simex, the Singapore International Monetary Exchange, had its best start this year with January's all-time high of 965,692 contracts traded vaulting 25.9 per cent above the previous record of 767,143 contracts in March 1989. January's daily average volume of 43,895 contracts was also the highest level since Simex started trading in 1984.

The exchange's total volume in 1991 resumed an up trend of 6.1m contracts after faltering in 1990 to 5.7m, due to lower price volatility in the first half. The daily average also moved up from 22,791 contracts in 1990 to 24,175.

Interest rate volatility and increasing international participation accounted for the massive leap in volume. Recognising the increased interest, especially from its European customers, the exchange extended trading hours for interest rate and energy contracts from February.

Interest rate contracts were again the mainstays with 82.6 per cent of the total volume, ahead of the Nikkei 225 Stock Average with 11.9 per cent. To diversify, Simex has launched an options contract based on the Nikkei 225, which was the first contract written on the Japanese stock index. As Mr Pierre Essig, chief executive officer of Fimat Futures Asia saw it: "There should be a strong demand for the new contract. The sheer size of the underlying Nikkei futures clearly suggests the market has a good appetite for an options contract written on the futures. Furthermore, the American-styled options, coupled with extended back months, are added attractions. Simex offers 15 contracts and the most active Eurodollar futures outside of Chicago.

American-styled options, coupled with extended back months, are added attractions

It was another story on the Stock Exchange of Singapore, where turnover fell to S$30.5bn in 1991 from S$36.8bn in 1990. The pick-up in activity after the Gulf war was not sustainable as other external factors in the US, European and Japanese economies had a dampening effect. Against the S$3.5bn raised through the market in 1990, last year saw only S$1.3bn raised, with S$279m from the flotation of 10 new companies, many of them government-linked.

Two more serious cases of multiple share applications are being taken to court. The SES has worked towards raising the standard of accountability and disclosure to shareholders by directors. For example, companies' equity-raising exercises must fully disclose their intended use. Such ever-tightening controls may provide comfort to investors, say industry members, but it also scares business elsewhere, such as Hong Kong.

The tightening-up measures are not unlike those taken in the banking and insurance industries. The authorities do not apologise for their prudential supervision or make secret their preference for supervising a smaller number of strong institutions rather than a larger number of weaker firms.

A large number of foreign institutions have been granted international membership. For a comparatively pricey S$30m in view of the current low trading volume, Credit Lyonnais, Baring Securities, Smith New Court, Daiwa, Nikko, Nomura, and Yamaichi Securities can deal for non-resident clients but are restricted to trades above S$5m for Singapore residents.

In line with its more liberal approach to opening up the market to foreign brokers, the invitation to banks and foreign brokerages to apply for seats could spell mergers and acquisitions of the smaller-capitalised local firms unwilling or unable to raise their share capital to a possible adjusted net capital target of S$20m

There has been disappointment that the listing of Singapore Telecom, with a potential market capitalisation of S$10bn, has been put off till next year. However, the success of a steady stream of initial public offerings to date will maintain interest in listing candidates such as garment manufacturer Heshe Holdings and Keppel Corporation subsidiaries Keppel Integrated Engineering and Keppel Bank.

Joyce Quek

HOTELS AND PROPERTY

Mixed trends and fortunes

AMID groans over the Singapore government's intention to release 84 hectares from 1991 to 1993 for development, the property scene has one group despairing over a potential glut while another, led by hotels, is finding profitable niches.

A third group, in line with the international re-awakening over preservation and the environment, is involved in conservation properties. It is bringing more colour to its projects and reaping commercial returns.

The glut theory stems from 1m sq ft of commercial space available during the four years to 1995 against a take-up of 140,000 sq ft annually. In the same period, there will be a supply of 4,170 apartments a year against demand for 3,000.

This theory was strengthened by a lack of bidders, for the first time since 1987, for a hotel-shopping-office development. And unlike the 1987 example, the latest case, in February, was a prime property beside the main Orchard Road shopping thoroughfare, designated to be a 900-room hotel with a six-storey podium at a reserve price of S$434m.

Knight Frank Cheong Hock Chye & Baillieau, property consultants, said that rents in Orchard Road shopping complexes had slipped 5-10 per cent last year while the industrial property market would be healthy until end-1992 when some 1.6m sq ft of new factory and warehouse space comes on stream.

Richard Ellis, another consultant, noted that the 11 per cent fall in office rents last year reversed upward spirals of 64 per cent and 16.5 per cent in 1989 and 1990, which explained why the outlook for office space and the general property market was uncertain. But it added that "while prospects may not be as gloomy as what had been projected, short-term problems such as slower economic growth and a perception of over-supply will prevail."

However, the consultancy believes there will be a slight downward pressure on office rents in 1992 as companies will have taken into consideration the anticipated new supply of space. Tenants can expect indirect discounts such as long rent-free periods, cash contributions towards fitting-out costs and 12-15 per cent discounts on the signing of longer leases of six years.

Buyers of residential properties are already getting discounts of between 5 per cent and 20 per cent. This has brought prices down to an average S$400-S$500 per sq ft level. Most observers believe that residential property prices will fall anywhere from 5 per cent to 30 per cent over the next few years. However, the trend may be reversed when discounts and low interest rates draw homebuyers into the market.

This scenario has not dissuaded companies such as the listed First Capital Corporation, with a war chest of S$250m, from developing a sizeable share of the residential property development, said a Kay Hian James Capel residential property review. The broking firm said that more big players would emerge in this arena in the next few years as the government releases more land for sale. They could include Hotel Marco Polo, Hotel Properties (which operates the Hilton and Four Season Hotels), and the Kuok group of Shangri-la fame.

Tourists have returned to Singapore despite the effects of the Gulf war, the vanishing Japanese big spenders and a slowing world economy. Arrivals were up 1.7 per cent to 5.4m last year. Mr N. M. Yeo, the Singapore Tourist Promotion Board's planning and operations director, forecasts a 6-8 per cent growth for 1992.

The bulk of Singapore-bound tourists come from within the region rather than from the west. Also, a global economic slowdown tends to send visitors to countries closer to home. Another boost is that 1992 is Visit Asean Year. Judging by the success of individual members' promotional efforts, a combined push should yield positive results.

Hotels did not benefit from the pick-up in tourist arrivals from mid-1991. The industry's turnover slid 1.8 per cent to S$1.6bn, the occupancy rate slipped to 76.8 per cent against 80 per cent in 1990, and hotel-operated food and beverage outlets saw revenue contracting 3.8 per cent to S$637.8m.

Brokers Hoare Govette, however, point to positive indicators for 1992. Based on January statistics, actual room lettings rose 2 per cent; average room rates were up 5 per cent to S$151.60 from year-ago levels; hotel room revenues were 6.9 per cent higher while food and beverage revenue increased 10.8 per cent. Gross industry revenue grew 9.1 per cent in January.

Another bright spot is in conservation projects. Such projects have become worthwhile despite conditions imposed which include preservation and restoration of facades and restrictions on building upwards. Five years ago, Singapore embarked on a S$1bn effort to conserve and restore its rich multicultural history so as to broaden its range of visitor attractions. Ethnic areas such as Arab Street, Chinatown and Little India were marked for preservation as were buildings such as Empress Place.

One well-known conservation project was the S$160m facelift of that Singapore landmark, the Raffles Hotel. It was restored to its 1887 tropical French colonial design. The all-suite hotel has 8,000 pieces of silver and china dating back to the days of its founders.

Restoration work in the business district has brought life after office hours. Tanjong Pagar shophouses have focused on retail and entertainment while Telok Ayer has become a festival market.

The cleaned-up Singapore River enjoys more night life along its banks. The warehouses and shophouses that once catered to busy traders now support entertainment and leisure-related activities.

The S$240m Clarke Quay project is the largest conservation project. It will convert 21,428 sq m of property beside the river into a vibrant festival marketplace offering a variety of retail, food and service establishments, activities and entertainment, said Mr Richard Helfer of managing agent Raffles International.

There will be outdoor cafes, art galleries, restaurants, gift shops and the Clarke Quay Adventure, billed as an exciting voyage blending fantasy with reality taking the visitor through Singapore's history.

Joyce Quek

Singapore and Indonesia are co-operating to develop an investment region that provides excellent business opportunities for international capital and services.

In August 1990, Singapore and Indonesia initiated formal agreements to jointly develop tourism, industry and water resources in Indonesia's Riau Province, and to promote and protect investments there. The Agreements reflect the commitment of both countries to co-operate in helping investors capitalise on the complementary resources of both locations.

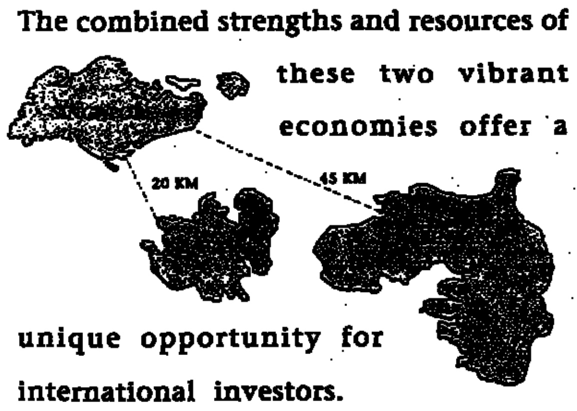
SINGAPORE INDONESIA

An Investment Partnership

The Bintan Beach International Resort – an unspoilt paradise.

SYNERGY OF INFRASTRUCTURE, LABOUR AND LAND

Singapore offers a developed business infrastructure, management and technical expertise, and good experience with multinational corporations. The Riau islands provide abundant land and a competitive labour force. The combined strengths and resources of these two vibrant economies offer a unique opportunity for international investors.



Development has begun on two of the Riau's largest islands - Batam, just 20 km south of Singapore, and Bintan, 45 km south-east of Singapore.

A consortium of Singapore and Indonesian private sector companies has developed the integrated Batam Industrial Park (BIP) with ready-built factories for electronics and related manufacturing.

At the same time, the Bintan Beach International Resort (BBIR) is being developed. This Resort promises to be Asia Pacific's playground of the 21st century.

HIGH-RETURN, LOW-RISK

Both projects represent significant high-return, low-risk opportunities for international investors. For manufacturers, the BIP is an offshore production and distribution base that serves as a gateway to international markets. For leisure-related businesses, the BBIR is a new getaway destination capitalising on the region's booming travel market.

Aerial view of the Batam Industrial Park.

INTEGRATED INDUSTRIAL FACILITIES

The US$250 million BIP is a 500 hectare integrated industrial estate with single and multi-storey factories, dormitories, medical clinics, markets, shops, banks and recreation facilities. It also has its own water and power supply, and sewage treatment and international telecommunications facilities.

The first phase of BIP took just a year and a half to complete. To date, 29 companies, including European, US and Japanese electronics multinationals have started manufacturing operations. Companies such as Philips, Thomson, Varta, Bowater, Epson, Sumitomo and AT&T are already turning out television channel switchers, cordless telephones, hi-fi speakers, watches and printed circuit boards.

The US$60 million Batam Executive Village is also undergoing development, with luxury condominiums and bungalows to house expatriate executives and management personnel. It will include a 36-hole golf course.

BINTAN, A RESORT PARADISE

Bintan is the largest island in the Riau Archipelago. The Bintan Beach International Resort, stretching across some 18 km of beautiful white beaches on the northern coast of the island, is a US$2.2 billion integrated resort development.

SINGLE TOURIST DESTINATION

BBIR will be marketed with Singapore as a single tourist destination. Tourists arriving at Singapore Changi Airport can directly transfer to the new Changi Ferry Terminal for a 45-minute ferry ride to BBIR.

When fully completed, the 23,000 hectare mega-resort will host more than 20 hotels, 10 condominium complexes, 10 golf courses, and offer water-skiing, horse-riding, sailing and surfing. The first hotels are scheduled to open in early 1994.

"Kelongs" near Bintan. These are fishing villages made of bamboo structures – unique to this part of the world.

Together with Singapore, Batam Industrial Park and Bintan Beach International Resort offer all the essentials for rewarding investments in the manufacturing and leisure industries.

In short, they offer the best of Singapore and Indonesia.

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